

# WIRRAL COUNCIL

## AUDIT & RISK MANAGEMENT COMMITTEE

DATE 23 JUNE 2014

<b>SUBJECT</b>	<b>INTERNAL AUDIT COUNTER FRAUD UPDATE</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>CHIEF INTERNAL AUDITOR</b>
<b>KEY DECISION</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

1.1. To update Members on the activities of the Counter Fraud Team within Internal Audit. The report covers the year 2013/14 and to date. Although the Counter Fraud Team works closely and collaboratively with the Fraud Investigation Team within Revenues and Benefits, this report does not include the extensive specialist activities of the Benefits Fraud Team which are reported to Members separately.

### 2.0. BACKGROUND AND KEY ISSUES

2.1. The Audit Commissions report 'Protecting the Public Purse 2013' states that nationally the number of frauds investigated last year in 2012/13 fell by 14%, however the value of detected frauds actually increased by 15%.

2.2. The Audit Commissions report therefore suggests that councils do not have sufficient resources to tackle all the reported frauds and those that they are able to investigate are of a higher value and take longer, as they tend to be more complex.

2.3. Whilst much has been made in the media about the level of benefit fraud the Audit Commission report states that this only represents 15% of the total fraud and abuse targeted at Local Authorities. Consequently the remaining 85% of fraud suffered by the local authority is actually non benefit related.

2.4. The remit of the Counter Fraud Team is to:

- Prepare relevant best practice policies and procedures,
- Facilitate changes to the culture of the organisation by raising awareness amongst the workforce to fraud and corruption through targeted training,
- Proactively manage the risk of fraud to the Council through targeted audits in high risk areas,
- Provide both a proactive and a reactive response to tackling fraud across the authority.

2.5. Also included within this remit is the investigation of serious financial frauds perpetrated against the Council as well as the teams either direct or supporting involvement with disciplinary and grievance cases which can often be linked to criminal offences, and their subsequent reporting to senior management.

- 2.6. Internal Audit has utilised the Audit Commissions self assessment contained within their Protecting the Public Purse report, the Chartered Institute of Public Finance and Accountancy's (CIPFA) Red Book and the Home Office's Fighting Fraud Locally guidance together with benchmarking exercises in order to assess and review the adequacy of the Council's Counter Fraud arrangements. This has resulted in the identification of a number of planned actions to improve and support the existing measures in place, all of which are in the process of being implemented.

### **3.0. COUNTER-FRAUD ACTIVITIES UNDERTAKEN**

- 3.1. During 2013/14 and the year to date the development and recognition of the Counter Fraud Team has continued with significant progress, which has resulted in 16 referrals being made to the team which represents an increase of some 30% of the cases referred from the previous year.

#### **Prepare relevant best practice policies and procedures**

- 3.2. The existing Counter Fraud Policy, Fraud Response Plan and Strategy have been updated and promoted across the Council.
- 3.3. A separate Fraud Risk register is currently being developed.

#### **Change the culture of the organisation by raising awareness amongst the workforce to fraud and corruption and through targeted training**

- 3.4. The Fraud Awareness online Training package continues to be promoted across the authority and is now an essential module within the suite of training offered by Learning and Development. More work is scheduled in this area during 2014/15.
- 3.5. Due to the ever changing environment of fraud this is under constant review to reflect changing trends and emerging good practice.
- 3.6. Anti Money Laundering refresher training sessions have been delivered to officers.
- 3.7. An on line reporting form has been developed to facilitate electronic reporting to a dedicated email account of any suspected money laundering or related activity.
- 3.8. A dedicated fraud reporting hotline - 0151 666 3990 is now available using a 24 hour answering service, monitored daily, on which members of the public or staff can leave messages to report suspected frauds.
- 3.9. A dedicated counter-fraud email address [counterfraud@wirral.gov.uk](mailto:counterfraud@wirral.gov.uk) has been set up and advertised on the intranet for Council Officers to report suspected frauds.
- 3.10. It is planned that the Counter Fraud staff will host a Fraud Awareness week during 2014/15 at which officers and the public will be made aware of the impact of fraud not only on the council but also the community and they will be encouraged to use both the telephone line and the email reporting functions to report any suspicions of fraud that they may have.

This will highlight not only the problems of corporate fraud but also benefits and insurance fraud, informing people of the signs to look for and how they can report their suspicions.

**Proactively manage the risk of fraud to the Council through targeted audits in high risk areas.**

- 3.11. The Counter Fraud Team has conducted 23 audits, reviews and investigations across a wide range of topics and as identified in the Strategic Internal Audit Plan presented to this Committee in March 2014 and subsequently reported upon at corresponding meetings. These assignments whilst predominately planned also include pieces of work in response to requests from Chief Officers or Members or as a result of any allegations made including whistleblowing.
- 3.12. In addition, the Counter Fraud Team provides advice to departmental officers investigating suspected frauds and irregularities in cases where these are investigated within the department. The last year has seen a further increase in the number of referrals from Departments as the profile of the team has risen and become more widely known to management of the Council.
- 3.13. Outcomes from individual audits and investigations are reported to Members through the quarterly Internal Audit update reports and the Annual Internal Audit Report.

**Provide both a proactive and a reactive response to tackling fraud across the authority.**

- 3.14. A fraud register developed during the year continues to collate details of all reported fraudulent activity across the Council, whether investigated by the Counter Fraud Team or by the relevant department. This facilitates the completion of the Audit Commissions fraud survey of frauds over £10,000 and those committed by employees, (AF70 Return). Chief Officers have been reminded of the requirement that all suspected or proven fraudulent or corrupt activity should be reported to the Counter Fraud Team within Internal Audit as required by the Financial Regulations

The information contained within the register is then used to identify potential weakness and areas that may be susceptible to increased attempts of fraud and as such where Counter Fraud resources need to be directed.

- 3.15. The Counter Fraud team oversees and co-ordinates the Council's participation in the Audit Commission's biennial **National Fraud Initiative** (NFI). This is a national exercise using data matching audit techniques. Council-wide data sets covering a wide range of financial and non-financial applications such as Housing Benefits, Council Tax, Electoral Registration, Pensions, Payroll, Creditors are uploaded to the Audit Commission website, which are then matched with data within and between participating bodies to identify potential frauds.
- 3.16. The NFI exercise has resulted in significant savings to the Council, arising largely from payments recovered or stopped. The most frequently detected fraudulent and erroneous transactions, which are also identified, are in

relation to council tax, housing benefit and deceased pensioners. Whilst nationally these areas have been found to be repeatedly areas of high fraud and error it has to be acknowledged that the perpetrators of this type of crime are often very mobile and changing. The problems that this creates is that whatever factors are put in place to limit fraud we are constantly dealing with different people, different claims and this creates a variable factor when attempting to limit the risks within these areas.

- 3.17. The team has worked with departments to develop and implement Action Plans taking into account lessons learnt from this exercise. The aim being to identify common themes and recurring types of fraud and error so that departments can identify what changes can be made and measures taken to reduce their incidence. The results of the latest exercise in 2012/13 has recently been reviewed and action to reduce potential fraud and error taken.
- 3.18. For the current NFI exercise £199,215.24 of fraud and error has been identified to date, of which £158,768.18 is deemed to be recoverable at this moment and is in the process of being recovered. It is anticipated that this figure is likely to increase with the addition of further successful benefit fraud cases, once they have been concluded.
- 3.19. The Audit Commission has now introduced a new service, linked to the National Fraud Initiative, called the Flexible Matching Service. This has enabled the Council to submit additional data sets to the Audit Commission for additional and real time matches. Both Council Tax and Electoral Registration data has been submitted for this. The benefits of this are that the results are turned around on the same day as submission. Preparations are also being made for Personal Budget data to be submitted.
- 3.20. With the forthcoming closure of the Audit Commission, it has been announced that the National Fraud Initiative due to its success will continue and that it will then be managed by the National Audit Office.
- 3.21. The Counter Fraud Team Co-ordinates the annual reporting of frauds perpetrated against the Council to the Audit Commission via the Commission's AF70 reporting requirement. This lists all frauds involving sums greater than £10,000 or involving employees. The bulk of the frauds reported are those handled by the Benefits and Revenues Fraud Investigation Team
- 3.22. The Counter Fraud Team coordinates the completion of the Audit Commission's Annual Fraud Survey on behalf of the Council. This lists all fraud and corruption irrespective of amount and also responds to survey questions dealing with anti fraud policies, procedures and controls.

#### **4. DEVELOPMENT OF THE COUNTER FRAUD TEAM**

- 4.1. During 2013/14 the two officers on the Counter Fraud team have attended appropriate and relevant training and awareness sessions delivered outside of the authority by organisations such as CIPFA, CIIA, the Audit Commission, Grant Thornton and ACAS. In addition to these courses they have also attended localised and national networking meetings of their peers. One such group is the Local Authority Investigation Officers Group (LAIOG) of which one of the officers is now on the National Executive and the North West Fraud Group. These provide important opportunities for the officers to update and refresh their knowledge in the counter fraud arena.

- 4.2. During this time one of the officers has also attained a new investigative qualification of Accredited Open Source Internet Intelligence Researcher, and was at the time, only one of three in the UK to have attained this qualification which is accredited by Portsmouth University.
- 4.3. Activity of this nature will continue during 2014/15, in addition the team is currently leading on an exercise with colleagues from across the Merseyside Combined region to develop a local Counter Fraud group where data, plans and best practice can be shared and joint exercises undertaken to manage the risk of fraud and conduct investigations as appropriate.

#### **5.0. RELEVANT RISKS**

- 5.1. That fraud is not properly addressed investigated and appropriate actions taken to prosecute perpetrators, recover losses and improve financial controls.
- 5.2. Given the budgetary constraints the council has been faced with and the reduced staffing levels it will always be a risk that previously robust procedures may not be followed and therefore providing the opportunity for fraud to occur.

#### **6.0. OTHER OPTIONS CONSIDERED**

- 6.1. No other options considered

#### **7.0. CONSULTATION**

- 7.1. Members of this Committee are consulted on matters relating to Internal Audit including the development of the Internal Audit Plan and the activities of the Counter Fraud Team.

#### **8.0. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 8.1. There are none arising from this report.

#### **9.0. RESOURCE IMPLICATIONS**

- 9.1. Following the annual NFI exercise £159k is currently being recovered by the Council.

#### **10.0. LEGAL IMPLICATIONS**

- 10.1. There are none arising from this report.

#### **11.0. EQUALITIES IMPLICATIONS**

- 11.1. Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because there is no relevance to equality.

## **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.

## **14.0. RECOMMENDATION**

14.1. That the report be noted and that Members continue to support the work of the team.

## **15.0. REASON FOR RECOMMENDATION**

15.1. To provide Members with assurance that the Council is taking appropriate action to address the risk of fraud and that suspected frauds are investigated and appropriate actions taken to prosecute perpetrators, recover losses and improve financial controls.

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## **REFERENCE MATERIAL**

Internal Audit Plan 2013/14 and 2014/15

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Audit and Risk Management Committee	Routine report presented annually to this Committee.