

# WIRRAL COUNCIL

## AUDIT AND RISK MANAGEMENT COMMITTEE

DATE: 24 NOVEMBER 2015

<b>SUBJECT:</b>	<b>INTERNAL AUDIT ANNUAL 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 financial year 2014/15 and current year to date. Although the Counter Fraud Team has worked closely and collaboratively with the Fraud Investigation Team within Revenues and Benefits, the majority of whom have now transferred to the DWP, this report does not include the extensive specialist activities of their work which is reported to Members separately.

### 2.0 BACKGROUND AND FUTURE DEVELOPMENTS

2.1 The Audit Commission published their annual report on fraud and corruption in Local Government called "Protecting the Public Purse" (PPP), at the end of October 2014. This publication provided details of the amount of detected fraud across the UK, emerging fraud risks and promoted best practice across the sector. Much of the information from the PPP is drawn from the results of the annual Fraud and Corruption Survey which was collated by the Audit Commission in May 2014.

2.2 The report specifically highlighted an increase in fraud nationally in the following risk areas (extracts below quoted from the report identifying national trends):

- Social care – the number of detected cases has more than trebled since 2009/2010 and in 2013/2014 438 cases were detected with a value of £6.2million.....the policy of more choice and local control has changed the scale of the fraud risks councils face in this area;
- Insurance – the number of detected cases rose from 72 in 2009/2010 to 226 in 2013/2014, with a value of £4.8million;
- Disabled parking (also known as 'Blue Badge' fraud) – as in 2012/13, this produces the largest number of "other" cases, and in 2013/14, cases increased by 40 per cent to 4,055 with a value of £2 million.

These risk areas have been incorporated into the annual Internal Audit planning process and audit work has been identified that will be undertaken during 2015/16.

- 2.3 The abolition of the Audit Commission has had a significant impact on the national counter fraud picture. Responsibility for the National Fraud Initiative (NFI) data matching has transferred to the Cabinet Office and the Chartered Institute of Public Finance and Accountancy (CIPFA) have established a new Counter Fraud Centre (CFC) to lead on work to counter fraud and corruption across public services.
- 2.4 The NFI has continued following the abolition of the Audit Commission in March 2015. The Local Audit and Accountability Act 2013/14 made provision for the future arrangements for the NFI and transferred the Commission's data-matching powers to the Secretary of State, who delegated their operational management to the Cabinet when the Audit Commission closed.
- 2.5 The CFC will carry out the annual survey of fraud and corruption detected in local authorities in England which will be similar to the former Annual Fraud and Corruption Survey delivered by the Audit Commission. The CFC's CIPFA Fraud and Corruption Tracker (CFaCT) will examine:
  - Levels of fraud and corruption detected across the public sector in the 2014/2015 financial year.
  - Number of investigations undertaken.
  - Types of fraud encountered.
  - Emerging trends.
- 2.6 The CFC does not have the same statutory powers as the Audit Commission to require local authorities to provide it with information on cases of fraud, and corruption: it therefore remains to be seen whether it will be able to deliver the comprehensive national picture on fraud risks to local government previously provided by the Audit Commission's annual "PPP" report.
- 2.7 To support the work of local authorities, the CFC has published a new Code of Practice on Managing the Risk of Fraud and Corruption. Although the Code is not currently mandatory, it represents best practice and compliance with the Principles set out in the Code will enable the Council to demonstrate effective financial stewardship of public monies.
- 2.8 The five key principles of the code align closely to those in Local Government's 'Fighting Fraud Locally Strategy' on which our current action plan is based. The code of practice sets out a number of principles and contains five key elements to:
  - Acknowledge the responsibility of the governing body for countering fraud and corruption;
  - Identify the fraud and corruption risks;
  - Develop an appropriate counter fraud and corruption strategy;
  - Provide resources to implement the strategy; and

- Take action in response to fraud and corruption.

2.9 The Code aims to establish common principles for managing the risk of fraud and corruption. The principles provide a set of standards which can be applied in all public bodies, regardless of sector or size. They emphasise the importance of managing the risks of fraud and corruption in order to secure good governance and financial stewardship.

2.10 The Code of Practice is attached as Appendix 1 to this report. The Council's compliance with the Code was initially assessed following its publication in 2014. However, following the publication of guidance and the development of an online assessment tool provided by CIPFA, the Council's fraud arrangements will be re-assessed in 2015/16. The assessment will be completed with the involvement of the ARMC and senior managers, and a revised action plan will be drawn up to address any gaps in compliance.

2.11 These developments place a greater emphasis on local joint working between councils and other partners to share information and make the most effective use of limited resources. In a time of austerity, preventing fraud becomes even more important. Every pound lost through fraud cannot be spent on providing services. Therefore, it is vital that the Council has strong counter-fraud cultures and effective counter-fraud arrangements.

### **3.0. COUNTER-FRAUD TEAM**

3.1 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.

3.2 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.

### **4.0 ACTIVITIES UNDERTAKEN**

#### **Mersey Region Fraud Group and Counter Fraud Funding**

4.1 In July 2014, Wirral Council's Counter Fraud Team set up the Mersey Region Fraud Group (MRFG) which consists of a number of neighbouring authorities and partner organisations. The group is committed to developing a regional approach to counter fraud, including the production of generic policies and

procedures and undertaking collaborative working in targeted areas such as data matching, developing/sharing fraud strategies and policies, sharing good practice joint fraud awareness campaigns and other counter fraud exercises and audits as appropriate.

- 4.2 Wirral Council were successful in securing separate funding from the DCLG to purchase a 'Counter Fraud App' from the Intec Group. The app can be downloaded by members of the public and they can use it to report fraud and keep up to date on threats in the local area. Intec will be hosting and supporting the fraud app with the DCLG funding for a total of two years and the app will be available to download in the coming months.

### **National Fraud Initiative (NFI)**

- 4.3 The team oversees and co-ordinates the Council's participation in the NFI which the Council is required by law to participate in. 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, Blue Badges, Residential Care Homes and Personal Budgets are uploaded to the NFI website, which are then matched with data within and between participating bodies to identify potential frauds.
- 4.4 On receipt of the results the Council then has responsibility to follow up and investigate the matches, and identify fraud, overpayment and error. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle. Data sets were submitted in October 2014 for the 2014/15 NFI biennial data matching exercise and results of data matches were received at the end of January 2015.
- 4.5 The NFI exercise consistently generates significant savings for the Council, arising largely from payments recovered or stopped. For the current NFI exercise £154,376.58 has been identified to date, of which £154,071.27 is in the process of being recovered. It is anticipated that this figure is likely to increase with the addition of further successful cases, once investigations have been concluded.
- 4.6 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.

### **Self-Assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption**

- 4.7 An initial exercise was undertaken to assess the Council's measures to counter fraud and corruption against CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption, which all authorities should

assess themselves against. The subsequent findings indicated that overall good practice advocated by CIPFA was being followed, where appropriate, and that the necessary policies and procedures were in place to support this approach. However, since our initial assessment CIPFA has issued a guidance document and assessment tool to accompany the Code which will be used to undertake a further assessment in 2015/16.

- 4.8 A future report will be brought to Members once the full assessment against the code has been undertaken.

### **Training, Awareness and Reporting**

- 4.9 During 2014/15 the officers of the Counter Fraud Team attended appropriate and relevant training and awareness sessions delivered outside of the authority by organisations such as CIPFA, CMIIA, and ACAS. In addition to these courses they have also attended localised and national networking meetings of their peers. These provide important opportunities for the officers to update and refresh their knowledge in the counter fraud arena.
- 4.10 One officer gained CIPFA accreditation as a Counter Fraud Specialist in October 2014 and another member of the team will be undertaking the CIPFA Certificate in Investigative Practice (CCIP) in 2016. On completion of the training the officer will also gain the Counter Fraud Specialist accreditation through CIPFA.
- 4.11 In November 2014, the team coordinated a week long Employee Fraud Awareness Campaign, in collaboration with the Fraud Team (Benefits and Revenues), Trading Standards, Insurance & Risk, HR, Publicity and other neighbouring authorities. The aim of the week was to heighten the awareness of the problem and scale of fraud in the public sector, to direct all employees to complete the mandatory Anti-Fraud and Corruption e-learning course and to encourage them to report any suspicions of fraud that they may have. The campaign involved posters, e-alerts and daily intranet bulletins and was supported by corporate messages from the CEO and Members.
- 4.12 Since the campaign the team has seen both an increase in the take up of the Anti-Fraud and Corruption e-learning course and the number of investigations that they were asked to both undertake or to provide advice and support with. This clearly demonstrated that the work to raise the profile of the team, and the support that they can provide has been successful, in that more requests for assistance are now being received.
- 4.13 The mandatory Anti-Fraud and Corruption e-learning course continues to be promoted across the authority and is now an essential module within the suite of training offered by Learning and Development and due to the ever changing environment of fraud this is under constant review to reflect changing trends and emerging good practice.
- 4.14 The team ran a further week long Fraud Awareness Campaign from 16-22 November 2015, in collaboration with the Fraud Team (Benefits and

Revenues), Insurance & Risk, Publicity and other neighbouring authorities, which was aimed at raising public awareness of fraud and encouraging Wirral Residents/Businesses to help spot and report fraud. The campaign involved posters and leaflets in Council run public buildings, advertisements in the local newspapers and messages on the Council's Website, Facebook/Twitter pages and the One Stop Shop plasma screens. The campaign highlighted the following high risk fraud areas targeted by fraudsters:

- Council Tax Support/Reduction
- Procurement
- Grants/Personal Budgets (Direct Payments)
- Blue Badges
- Insurance

- 4.15 The Council subscribes to the National Anti-Fraud Network (NAFN), which promotes the sharing of information between Authorities and publishes regular bulletins on fraud cases and attempted scams, which are distributed to relevant staff and appropriate measures are taken to address the identified risks. The most common threats faced by the Council are attempts to amend bank details (mandate fraud) and impersonation of officials (e.g. bogus bailiffs, false tax refund notifications from HMRC).
- 4.16 During 2014/15 and the year to date the development and recognition of the Counter Fraud Team has continued with significant progress, which has resulted in 24 reports and referrals being made to the team which represents an increase of some 34% of the cases reported/referred from the previous year. The type of issues covered a broad spectrum of the Council's activities.
- 4.17 In addition, the 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 an 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.
- 4.18 The team maintains a fraud register which is used 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 CIPFA Fraud and Corruption Tracker, which is coordinated by the Team on behalf of the Council. 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.

### **Audits and Investigations**

- 4.19 The team has conducted 23 audits 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.

- 4.20 Outcomes from individual audits and investigations are reported to Members through the quarterly Internal Audit Update reports and the Chief Internal Auditors Annual Report.

## **5.0 CONCLUSION**

- 5.1 Participation in counter fraud activities and compliance with best practice helps to strengthen the Council's approach and management of these risks. Working with partners, as demonstrated by the NFI and more recently the MRFG, successfully illustrates the benefit of joined-up working and co-operation between all involved. The national sharing of data allows a number of organisations to effectively identify areas of potential fraud or error, reducing the future risk of such fraud or errors going undetected.

- 5.2 Counter fraud activity and the investigation of any issues ensures that where appropriate any monies lost as a result of identified frauds or errors are recovered and any weaknesses in procedures are addressed to improve the internal control environment and help prevent future fraud or error. Work will continue in 2015/16 to ensure that the Council has up to date policies and procedures in place to create and promote an environment where fraud and corruption are not tolerated.

## **6.0 RELEVANT RISKS**

- 6.1 That fraud is not properly addressed investigated and appropriate actions taken to prosecute perpetrators, recover losses and improve financial controls.
- 6.2 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.

## **7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 7.1 There are none arising from this report.

## **8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 8.1 Following the bi-annual NFI exercise £154k is currently being recovered by the Council.

## **9.0 LEGAL IMPLICATIONS**

- 9.1 There are none arising from this report.

## **10.0 EQUALITIES IMPLICATIONS**

10.1 There is no relevance to equality.

## **11.0 CARBON REDUCTION IMPLICATIONS**

11.1 There are none arising from this report.

## **12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

12.1 There are none arising from this report.

## **13.0 RECOMMENDATIONS**

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

## **14.0 REASON FOR RECOMMENDATION**

14.1 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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## **APPENDICES**

CIPFA Managing the Risk of Fraud and Corruption 2014

## **REFERENCE MATERIAL**

Internal Audit Plan 2014/15 and 2015/16

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

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