



**Audit and Risk Management Committee**  
**Tuesday 22 November 2016**

<b>REPORT TITLE:</b>	<b>INTERNAL AUDIT ANNUAL COUNTER FRAUD UPDATE</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>

**REPORT SUMMARY**

To update Members on the activities of the Counter Fraud Team within Internal Audit. The report covers the year 2015/16 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 Department for Work and Pensions (DWP), this report does not include the extensive specialist activities of their work which is reported to Members separately.

**RECOMMENDATION**

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

## **SUPPORTING INFORMATION**

### **1.0 REASON FOR RECOMMENDATION**

- 1.1 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.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 No other options considered.

### **3.0 BACKGROUND AND AUDIT OUTPUT**

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) established a new Counter Fraud Centre (CFC) in 2014 to lead on work to counter fraud and corruption across public services, following the closure of the National Fraud Authority (NFA) and the Audit Commission.
- 3.2 The CIPFA CFC published their annual fraud and corruption tracker (CFaCT) in 2016 which gives a national picture of fraud, bribery and corruption in the UK's public sector.
- 3.3 CIPFA estimates that over £271m worth of fraud has been detected or prevented within the public sector in 2015/16 and a total of 77,000 cases were investigated in 2015/16 across the UK, representing an average value of £3,500 per case.
- 3.4 The high risk fraud areas detailed in the CFaCT report have been incorporated into the annual Internal Audit planning process and audit work has been identified that will be undertaken during 2016/17.
- 3.5 To support the work of local authorities, the CFC has published a 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.
- 3.6 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.
- 3.7 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.

- 3.8 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 November/December 2016. 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.
- 3.9 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.

### **COUNTER-FRAUD TEAM**

3.10 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.

3.11 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.

### **ACTIVITIES UNDERTAKEN**

3.12 The Counter Fraud Team continues to chair and co-ordinate the activities of 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 and other counter fraud exercises.

3.13 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 Audit Commission website, which are

then matched with data within and between participating bodies to identify potential frauds.

- 3.14 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. The NFI exercise consistently generates significant savings for the Council, arising largely from payments recovered or stopped.
- 3.15 The Cabinet Office has recently published the 2016 NFI report on the outcomes of the previous exercise which sets out how, in the reporting period 1 April 2014 to 31 March 2016, £222m has been found across the UK (£198m in England). The main categories of fraud identified by the NFI in England are namely:
- £85 million of pension fraud and overpayments;
  - £37 million of fraudulent or wrongly received, council tax single person discount (SPD) payments; and
  - £39 million of welfare benefit fraud and overpayments.
- 3.16 The Council has recently submitted data for the 2016/17 NFI exercise and matches for review are expected in early 2017. Members will be informed of the outcomes in future reports.
- 3.17 An initial exercise was undertaken in 2015 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 November/December 2016.
- 3.18 A future report will be brought to Members once the full assessment against the code has been undertaken.
- 3.19 During 2015/16 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.
- 3.20 The team ran a week long Fraud Awareness Campaign from in November 2015, 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. 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

3.21 Since the November 2015 campaign the team has seen a significant increase in the number of fraud referrals from both employees and members of the public and an increase in the number 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.

3.22 More recently the team coordinated a week long Employee Fraud Awareness Campaign from 14-18 November 2016, in collaboration with the Fraud Investigation Service (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 new Fraud Awareness e-learning course and to encourage them to report any suspicions of fraud that they may have. The campaign involved posters, daily intranet bulletins and was supported by a corporate messages from the CEO.

3.23 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). We are not aware of any cases where the Council has fallen victim to any of these frauds or scams in 2015/16.

3.24 During 2015/16 and the year to date the development and recognition of the Counter Fraud Team has continued with significant progress, which has resulted in 35 (non-benefit related) reports and referrals being made to the team which represents an increase of some 31% of the cases reported/referred from the previous year. The type of issues covered a broad spectrum of the Council's activities.

3.25 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.

3.26 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.

- 3.27 The team has conducted 19 audits and investigations across a wide range of topics and as identified in the Strategic Internal Audit Plan presented to this Committee in March 2016 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.
- 3.28 Outcomes from individual audits and investigations are reported to Members through the bi-monthly reports, quarterly Internal Audit update reports and the Annual Internal Audit Report.

## **CONCLUSION**

- 3.29 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, 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.
- 3.30 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 2016/17 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.

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 Delivery of the counter fraud work will be met from existing Internal Audit resources.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 There are none arising from this report.

## **6.0 RESOURCE IMPLICATIONS**

- 6.1 There is none arising from this report.

## **7.0 RELEVANT RISKS**

- 7.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.
- 7.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

## **8.0 ENGAGEMENT/CONSULTATION**

8.1 Members of this Committee are consulted throughout the process of preparing the Annual Governance Statement and receive updates to each meeting of the Audit and Risk management Committee.

## **9.0 EQUALITY IMPLICATIONS**

9.1 There are none arising from this report.

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## **APPENDICES**

### **REFERENCE MATERIAL**

INTERNAL AUDIT PLAN 2015/16 AND 2016/17

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

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