

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	30TH MARCH 2017
SUBJECT OF REPORT:	COUNTER FRAUD UPDATE REPORT & UPDATED COUNTER FRAUD STRATEGY
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	PETE CANN, AUDIT MANAGER & JEFF WRING, HEAD OF AUDIT WEST
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee notes the report, progress against the Action Plan 2016-17 and endorses the updated Counter Fraud Strategy.

SUMMARY OF REPORT

This report outlines the progress made to implement the Council's Counter Fraud Strategy through the 2016-17 Counter Fraud Action Plan. It also presents to the committee the updated Counter Fraud Strategy for endorsement.

1. POLICY

The Counter Fraud Strategy and the Counter Fraud Improvement Plan 2017-18.

2. DETAILS

This is the annual update to the Audit Committee for the work achieved against the Counter Fraud Action Plan for 2016-17 which continues our work to align the policies and procedures at both NSC and BaNES councils. Also, this report presents the updated Counter Fraud Strategy for approval.

2.1. NATIONAL PICTURE & EMERGING FRAUD RISKS

The latest edition of the Local Government Fraud Strategy, "Fighting Fraud and Corruption Locally 2016-19" was published in March 2016 by CIPFA. This identified that fraud may be costing £20.6 billion in the Public Sector in the UK. Of this, £2.1 billion is the estimated cost of fraud affecting local government.

The most common type of frauds identified include:

- Council Tax
- National Non Domestic Rates (NNDR)
- Procurement
- Blue Badges
- Schools
- Internal Fraud

- Personal Budgets
- No recourse to public funds
- Identity assurance

In addition to the areas listed above, it is recognised by CIPFA that the risks of fraud & corruption that a local authority are exposed to are many and diverse, and additional fraud risks identified include;

- Money laundering
- Insurance fraud
- Disabled Facilities Grants
- Concessionary travel schemes
- Commissioning of services
- Cyber and e-enabled fraud

It is important for local authorities to be aware of the rapidly changing environment of fraud and should continuously be scanning for new and developing fraud risks.

Therefore, we continue to review information both nationally and locally and liaise with the WOEIA fraud group to keep abreast of current fraud risks, with work completed and best practice shared between the group members.

Fraud risks are considered within all audit reviews. Where necessary, recommendations have been made to strengthen controls to help prevent fraud from occurring.

2.2. NFI POSITION

The first full National Fraud Initiative (NFI) exercise since the move to the Cabinet Office is now underway. Data for the biennial NFI Matches was extracted and uploaded in October 2016 and the resulting matches were released at the end of January 2017. In addition to this, the data for the annual Single Person Discount NFI matches was extracted and uploaded in December 2016, and the matches also released in January 2017.

The matches will be assigned to the relevant teams for Blue Badges, Concessionary Fares, Housing Benefit, Council Tax, Personal Budgets, Pensions and Insurance. We are currently working with Business Support to identify the appropriate staff to complete the follow up of the matches, and then training will be delivered.

Payroll matches will be retained within the Internal Audit team for completion.

2.3. IA TARGETED WORK & INVESTIGATIONS

Within the last twelve months, six investigations have been undertaken. One of the completed investigations has resulted in disciplinary procedures. Further detail on the control breakdowns leading to these investigations will be presented to the Committee at a confidential session.

2.4. POLICIES & PROCEDURES

Policies have been reviewed during the year to ensure that they are still current and where necessary updated versions have been produced.

The Counter Fraud Strategy has now been revised and updated. This has been updated in line with "Fighting Fraud Locally 2016-19" released by the CIPFA Counter Fraud Centre earlier this year and the results of the "Fraud & Corruption Tracker Survey 2016" have been used to identify the current

high risk areas (*detailed on page 3 of the Counter Fraud Strategy 2016*) and ensure that we are working to current best practice.

We are also continuing to review the policies at BaNES to ensure that the policies are closely aligned and where possible joint policies will be issued in the future. Updated Anti Bribery and Anti Money Laundering policies, along with the new Counter Fraud Strategy were presented to the BaNES Audit Committee on 8th December 2016.

During the year, we have continued to publish articles of interest and reminders about counter fraud in *The Knowledge*. This has included an article to promote 'International Fraud Awareness Week' and promote the updated Fraud Awareness e-Learning module.

Work will continue to be undertaken to ensure that the intranet pages are up to date and are in line with the updated Counter Fraud Strategy. This will also be reflected on the new Audit West website.

2.5. PRIORITIES FOR NEXT 12 MONTHS

Counter Fraud is an ongoing process and we will continue to identify and assess the fraud risks that NSC face.

The updated Counter Fraud Action Plan, is included within the *Counter Fraud Strategy 2016* (pages 6-8) for consideration by the Audit Committee. The work will continue to be focused around aligning policies and procedures at NSC and BaNES and also ensuring that staff receive appropriate training and information to enable them to identify and report any suspicions of irregularity/fraud.

As part of the planned work, we are continuing work to identify areas in which we can undertake innovative data matching, not only to identify fraud and error, but to be informative and add value to the council as a whole. Test work was completed in August/September in North Somerset Council and we are in the process of replicating this work at BaNES to see whether it identifies the same benefits and issues. This will then be used to inform the audit plan to identify where data analytics can be used to provide added value. We will also consider how data analytics can be used to perform more regular matching exercises to prevent and detect fraud and/or error.

3. CONSULTATION

The Counter Fraud Strategy 2017 - 2020 to be endorsed by the Audit Committee. The Counter Fraud Action Plan 2017-18 for comment.

4. FINANCIAL IMPLICATIONS

The financial implications of delivering this plan have been negated by the savings of preventing and/or detecting fraud at an early stage.

5. RISK MANAGEMENT

It is recognised by Government that the current economic climate in the United Kingdom and the Government policy of significantly reduced public spending have the potential to increase the risk of fraud and irregularity as never seen before in the public sector. As the Council makes significant cuts in its current and future budgets, it is essential that it continues to maintain strong defences

against fraud and irregularity, directing its resources most effectively to mitigate the areas of highest risk.

6. EQUALITY IMPLICATIONS

Equality and diversity impact assessments of investigations completed are regularly undertaken and have showed that the implementation of the Counter Fraud Strategy had not adversely impacted on any specific individuals or groups.

7. CORPORATE IMPLICATIONS

Counter fraud arrangements supports the delivery of good public services and culture and working practices of the Council.

8. OPTIONS CONSIDERED

None.

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COUNTER
FRAUD
STRATEGY
2017 - 2020



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If you require clarification on any aspect of the Counter Fraud Strategy or require this document in a different format, please contact Internal Audit.

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This policy will be reviewed on an ongoing basis and at least once a year.

Foreword

Counter Fraud Strategy 2017-2020

Welcome to the Council's Counter Fraud Strategy which has been endorsed by the Council's Audit Committee.

This document supports The Local Government Counter Fraud and Corruption Strategy "Fighting Fraud & Corruption Locally".

In the public sector, fraud diverts valuable resources away from those who need them most, our customers.

Counter fraud is integral to the culture and working practices of the Council and historically it has had effective counter fraud arrangements. However, both the Council and the country face unprecedented challenges over the coming years as public spending cuts are introduced to reduce the national deficit and key services are delivered by partners, contractors and volunteers.

Aim of the Counter Fraud Strategy

This Counter Fraud Strategy aims to direct the Council's counter fraud resources on the key areas of fraud risk and bring together the Council's Anti-Fraud and Corruption Policy Statement (contained in the Council's Constitution), the Anti-Money Laundering Policy and the Anti-Bribery Policy under one umbrella strategy.

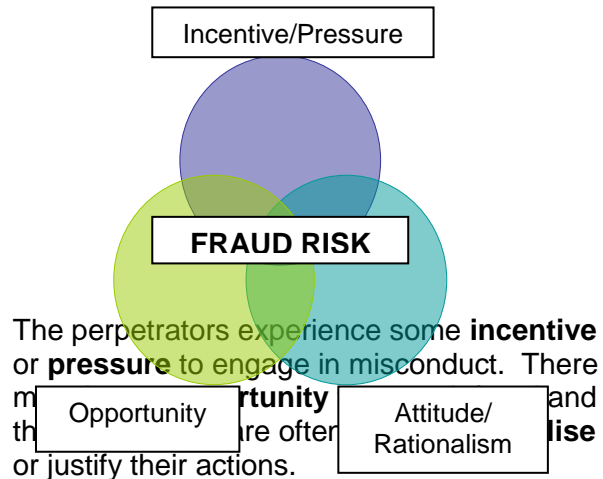
It aims to improve the integration of fraud **prevention** and **detection** into the culture and working practices of the Council, its partnerships, contracts and the civic sector.

The Strategy requires that adequate and effective measures are put in place to **correct** any identified fraud or irregularity and all perpetrators are severely **punished**.

The Strategy continues the Council's stance in maintaining a **zero tolerance** approach towards fraud and irregularity and doing more to **deter** it.

The Heightened Threat of Fraud

There are three conditions that are commonly found when fraud occurs:



The current economic climate in the United Kingdom and the Government policy of significantly reduced public spending have the potential to **increase the risk of fraud** as never seen before in the public sector, due to:

- Increased **incentives** or **pressures**, primarily as a result of employees' fear of losing their job
- More **opportunities** to commit fraud as internal controls are weakened or in some cases removed
- People's ability to **rationalise**.

As the Council makes significant cuts in its current and future budgets, it is essential that it continues to maintain strong defences against fraud and irregularity, directing its resources most effectively to mitigate the risk of fraud. This will involve working closely with partners, contractors and volunteers to overcome any barriers to effective fraud fighting and making the best use of available information and intelligence.

The Scale of Fraud in the UK

National Fraud Statistics

Figures published by the National Fraud Authority (NFA) in 2013 indicates that fraud maybe costing the United Kingdom **£52 billion** per annum.

This can be broken down as follows:

	£ billion
Public Sector	20.6
Private Sector	21.2
Individual	9.1
Charity Sector / Other	1.1

Fraud in the Public Sector

Fraud costs the Public Sector in the United Kingdom **£20.6 billion** per annum.

This can be broken down as follows:

	£ billion
Tax	14.1
Central Government	2.5
Local Government	2.1
Benefit and Tax Credits	1.9

The Audit Commission's Protecting the Public Purse 2014 identified detected fraud to the value of £188m following a comprehensive survey of local authorities; this was fraud after the event and did not include potential losses.

These figures also do not take into account the indirect costs of responding to and dealing with fraud.

National Fraud Initiative (NFI)

The National Fraud Initiative is a sophisticated data matching exercise to prevent and detect fraud, and is facilitated by the Cabinet Office under statutory powers.

It was established in 1996 by the Audit commission and is now undertaken every two years. Over 1,300 mandatory and voluntary participants provide 8,000 datasets.

The Council undertakes work both internally and with external bodies to investigate the data matches identified.

Detection of Fraudulent Activity

Knowing the potential extent and reach of fraud is crucial in the fight against it. However, there are still many areas where potential fraudulent activity and fraud loss data is not available, is incomplete or does not exist at all.

Even allowing for inaccuracies in the measurement of fraud risk, local government is under attack from fraudsters and the scale of losses to local authorities is significant.

Public Sector Fraud and Emerging Risks

CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government, the health, education and charity sectors.

The latest edition of the Local Government Fraud Strategy, "Fighting Fraud and Corruption Locally 2016-19" was published in March 2016 by CIPFA). It aims to help councils tackle fraud and prevent losses of over £2bn a year.

It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. The report also draws on the best practices of councils already successfully tackling fraud and offers practical anti-fraud advice.

The strategy is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. It is supported by the Department for Communities and Local Government (DCLG), the Local Government Association (LGA), local government representative organisations and council chief executives.

Every local authority is encouraged to implement the recommendations to help identify and address their own levels of fraud.

The National Response to Serious and Organised Crime

The National Crime Agency (NCA) was created in October 2013 and published the National Strategic Assessment of Serious and Organised Crime in May 2014.

The NCA leads work against serious and organised crime, coordinating the law enforcement response, ensuring action against criminals and organised criminal groups is prioritised according to the threat they present

Action Fraud is the national reporting point for fraud and cybercrime. This change was made by Government to ensure that one body was responsible for the whole process of recording and analysing reports of all types of fraud.

Fighting Fraud & Corruption Locally

The CIPFA document "*Fighting Fraud & Corruption Locally 2016-19*" identified the main fraud types:

- Council Tax
- National Non Domestic Rates (NNDR)
- Procurement
- Blue badges
- Schools
- Internal
- Personal Budgets
- No recourse to public funds
- Identity assurance

They have also identified the following other fraud risk areas:

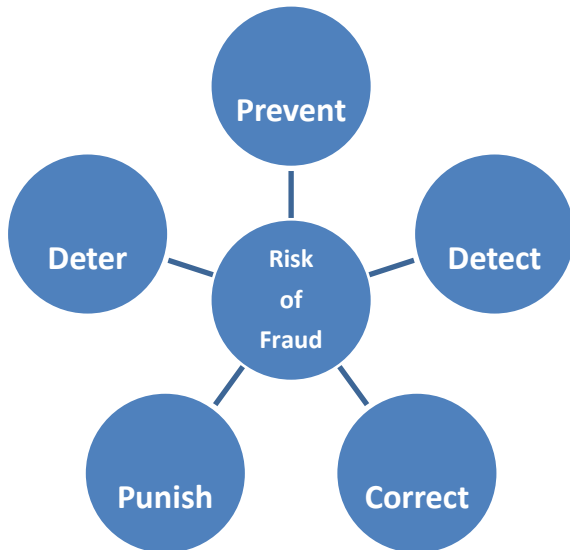
- Money Laundering – exposure to suspect transactions
- Insurance fraud – including slips & trips
- Disabled facility Grants
- Concessionary travel schemes
- Commissioning of services – including third sector partnerships
- Cyber and e-enabled fraud

It is important that local authorities should be aware to the rapidly changing environment of fraud and should continuously be scanning for new and developing fraud risks.

Approach to Counter Fraud

Five Key Elements

The Council has adopted an approach to counter fraud based around five key elements:



Each element is a fundamental component of the Council's **zero tolerance** approach to fraud and irregularity:

Prevent

Stopping frauds and irregularities occurring in the first place.

Detect

Increasing the likelihood of finding frauds and irregularities.

Correct

Promptly stopping frauds and irregularities and recovering any losses incurred by the Council.

Punish

Strengthening sanctions and penalties for those persons committing frauds and irregularities.

Deter

Publicising tough punishments and the increased likelihood of being caught.

Investigation and Sanction

The council will respond to all reports of fraud and/or irregularity and where necessary a full investigation will be carried out. If required, we will work with the police and/or other agencies.

In certain types of investigation, the council may (where necessary) apply for authorisation to complete covert surveillance under the Regulatory Investigations Powers Act (RIPA).

Where cases of fraud and/or irregularity are proven, appropriate action will be taken against the perpetrators:

For internal fraud, disciplinary action will be taken. In addition to this, where appropriate, the case will be referred to the police for criminal investigation / sanction.

For external fraud, where appropriate the case will be passed to the police for further criminal investigation and sanction.

Recovery of losses will also be pursued where appropriate, using the Proceeds of Crime Act (POCA).

Publicising Proven Cases

Where appropriate, the council will share and publicise cases where fraud committed against the council have been proven.

Fraud Risk Assessment

Risk Assessment for the Counter Fraud Action Plan 2017-18

All potential areas of fraud risk were subject to a detailed risk assessment by Internal Audit.

The risk assessment considered existing workstreams from previous years and potential areas of fraud risk identified by the Cabinet Office, CIPFA Counter Fraud Centre and the National Fraud Authority (NFA).

The exercise was carried out in order to focus available counter fraud resources on those workstreams considered to be at the greatest risk of fraud.

Each potential workstream was assessed against the following parameters:

- Any statutory or regulatory requirements
- Budget reduction and/or income generation requirements for 2016-17
- Requirement for provision of assurance
- Existence of anti-fraud culture/awareness
- Reputation management
- Ease of prevention, detection, correction, punishment and deterrent
- Resource requirements (*Anticipated expenditure and staffing costs*)
- Inclusion in the annual internal audit assurance plan for 2016-17.

Equalities & Diversity Assessment for the Counter Fraud Action Plan

The Counter Fraud Strategy has been reviewed to ensure it meets the Council's high standards in its Equalities and Diversity policy. This work continues and will be monitored throughout the life of the Counter Fraud Strategy.

Action	Desired Outcome
Strategy, Policies and Procedures	
<p>Annual review of the following documents:</p> <ul style="list-style-type: none"> ▪ Counter Fraud Strategy ▪ Anti-Fraud and Corruption Policy (<i>Part of the Constitution</i>) ▪ Prosecution Policy ▪ Money Laundering Policy ▪ Anti-Bribery Policy <p>Update policies as required and where possible align policies of North Somerset and B&NES councils.</p>	<p>All documents are “fit for purpose” and incorporate details of new or revised risks of fraud or irregularity and any national changes.</p> <p>All changes to documents approved by the Council (<i>Constitution</i>) or the Audit Committee.</p> <p>All updates to policies to be promoted through The knowledge and the intranet.</p> <p>Relevant policies available on the public website.</p>
<p>Promote the implementation of a joint Counter Fraud Strategy for North Somerset Council and B&NES. This will ensure that counter fraud information and procedures are aligned at both councils.</p>	
Counter Fraud Awareness	
<p>Counter fraud alerts:</p> <ul style="list-style-type: none"> ▪ The Knowledge ▪ Members Only ▪ Display Board ▪ Counter fraud intranet site 	<p>Staff, Members, partners and contractors have enhanced knowledge and awareness of the risk of potential fraud or irregularity.</p> <p>Increase in good quality internal/external referrals where fraud or irregularity is suspected.</p>
<p>Counter fraud newsletter:</p> <ul style="list-style-type: none"> ▪ Contribute to the West of England newsletter, collated by South Gloucestershire Council ▪ Circulation of articles of relevant interest. 	
<p>Training programme:</p> <ul style="list-style-type: none"> ▪ Continue promoting the counter fraud awareness e-learning module to all staff throughout the council. ▪ Specific counter fraud awareness training provided to those persons working within areas of increased risk of fraud or irregularity ▪ Promotion of counter fraud awareness to all partner organisations and contractors of the council. Consider Fraud Roadshow in council buildings. ▪ Continue fraud awareness training programme for delivery to schools and academies. 	
<p>Communication of successful fraud or irregularity</p>	

Action	Desired Outcome
investigations and outcomes.	
Corporate Investigations (Internal and External):	
<p>Intelligent sift of all referrals to ensure a formal investigation by Internal Audit is the most appropriate course of action.</p> <p>Prompt referral to the Police of any potentially serious fraud or irregularity (<i>senior management approval required</i>).</p>	<p>Issue of formal Internal Audit reports, incorporating recommendations for disciplinary or management action and/or practice and process changes, to senior management.</p>
<p>Data matching referrals:</p> <ul style="list-style-type: none"> • National Fraud Initiative (NFI) • Intelligent internal data matching to generate fraud or irregularity referrals, e.g. staff names and addresses matched to creditor payments names and addresses. <p>Investigations to be completed by IA in conjunction with HR and/or relevant managers within Council directorates.</p> <p>Utilise joint audit resources (Audit West) to follow up data matches and investigate where necessary.</p>	<p>Appropriate disciplinary or management action taken by senior management in respect of all cases of proven fraud or irregularity.</p> <p>Full recovery (<i>if cost effective</i>) from an individual or insurance policy of all losses suffered by the Council as a result of fraud or irregularity.</p>
Emerging Risks	
<p>Continuously review national documentation / press releases and information shared through the West of England Chief Internal Auditors Fraud Sub-Group to keep abreast of all emerging fraud risks. Where necessary;</p> <ul style="list-style-type: none"> • Assess the level of risk to NSC • Ensure robust processes are in place to minimise the opportunity of fraud • Identify all cases of possible fraud and investigate • Action taken if necessary 	<p>Issue of formal Internal Audit reports, incorporating recommendations for management action and/or practice and process changes, to senior management.</p> <p>Appropriate action taken by senior management in respect of all cases of proven fraud or irregularity.</p>

Action	Desired Outcome
Internal Audit Service	
<p>Internal audit reviews to include testing programme to assess the fraud risks and identify fraud and/or irregularity.</p> <p>Where necessary specific areas of fraud risk to be covered by a programme of internal audit reviews and counter fraud work included in Annual Audit Assurance Plan 2017-18.</p>	<p>Adequate assurance provided (<i>Annual Assurance Statement</i>).</p> <p>Senior management and the Audit Committee have timely and sufficient information about the implementation of the Counter Fraud Strategy and the Counter Fraud Action Plan 2017-18.</p>
<p>Attendance at meetings of the regional West of England Chief Internal Auditors Fraud Sub-Group and other professional conferences/forums.</p>	
<p>Active involvement in regional and national data capture and benchmarking exercises.</p>	
<p>Regular progress reports for senior management, e.g. Statutory Officers, and the Audit Committee.</p>	