

## **FIGHTING FRAUD LOCALLY – THE LOCAL GOVERNMENT FRAUD STRATEGY (2012)**

### **SUMMARY**

- 1.1 This report provides members with a synopsis of the strategy document co-ordinated by the National Fraud Authority (NFA) on tackling fraud in local government.

### **RECOMMENDATION**

- 2.1 To note the report

### **REASONS FOR RECOMMENDATION**

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.
- 3.2 Key elements of this national work are incorporated into our planned audit work.

### **SUPPORTING INFORMATION**

#### **Fighting Fraud Locally – The Local Government Fraud Strategy (2012)**

- 4.1 On 4 April 2012, the National Fraud Authority (NFA) published its new strategy, "Fighting Fraud Locally: The Local Government Fraud Strategy (2012)". The strategy is intended to provide a blueprint to better equip local authorities to fight a range of frauds including housing tenancy, council tax, and blue badge parking fraud. It aims to draw on the best practices of councils already successfully tackling fraud, and offer practical anti-fraud advice. The strategy is the result of an eight-month review led by the NFA and supported by the Department for Communities and Local Government (DCLG), the Local Government Association (LGA), local government representative organisations and council chief executives. Over 400 individuals from a wide range of councils and local government bodies were consulted during the development of the strategy, which meets a recommendation made in "Fighting Fraud Together (2011)" the national plan to reduce fraud. Every local authority is now being encouraged to implement the recommendations to help identify and address their own levels of fraud.

- 4.2 The strategy document calls for the adoption of a tougher approach to tackle fraud. The document also calls for:-
- a closer partnership between central and local government
  - central government to create a positive incentive regime to enable local authorities to protect public funds
  - local government to recognise the cross boundary nature of fraud
  - local government to adopt the best practice identified by the document to tackle the highest fraud risks
  - central government to remove barriers to information sharing
  - central government to conduct a review of the use of powers by local authorities and how they could be harnessed more effectively
- In order to achieve successfully put the strategy into operation, the document calls for a number of commitments to be made by the various bodies involved. These are listed in Appendix 2 and will be subject to review by the Anti-Fraud Working group. A checklist to allow authorities to self-assess against a set of activity targets is also provided. This has been compared with current activity and is given in Appendix 3. Further work will be done to assess future developments. These will be reported to a future meeting of the Committee.
- 4.3 The NFA Annual Fraud Indicator estimates that nationally there is £2.2 billion lost to fraud each year in the following areas
- |                            |        |
|----------------------------|--------|
| • Housing tenancy Fraud    | £900m  |
| • Procurement fraud        | £890m  |
| • Payroll fraud            | £153m  |
| • Council tax fraud        | £131m  |
| • Blue badge scheme misuse | £ 46m  |
| • Grant fraud              | £ 41m  |
| • Pension fraud            | £ 5.9m |
- 4.4 The strategy document identifies the change in emphasis of the role of local government, from a service provider to a commissioner of services, as an area where the risk profile of fraud will change; together with the control environment in which risk is managed. New safeguards are needed to prevent, detect and investigate fraud as the arms length delivery of services increases. The economic climate is also identified as being one in which the general fraud risk tends to increase. The creation of a single fraud investigation service to tackle benefit fraud will also alter current fraud governance arrangements.
- 4.5 The strategy is broken down into four sections,
- The context – outlines the nature and scale of fraud, actions taken to date and the key challenges to be addressed
  - The strategic approach – where further action is required and how to achieve the strategic vision of improved protection from fraud and return more money to authorities.
  - The main fraud risks – the most pressing and serious fraud risks and how local authorities are tackling them
  - The delivery plan – a framework for delivery and a programme of activity

## The Context

- 4.6 The estimated losses to fraud in the public sector per year are £20.3 billion, of which £2.2 billion is attributed to local government. This is within a national context of £73 billion lost to fraud each year. In October 2011 “Fighting Fraud Together” was published which is a strategic plan to reduce fraud on a national basis. “Fighting Fraud Locally” is the local government element of this national plan.
- 4.7 In October 2010 a cross-Whitehall taskforce set up a series of pilots using a variety of tools and techniques to tackle fraud and error in the public sector. These delivered savings valued at £12 million and, once rolled out, are estimated to save £1.5 billion by 2013/14. This taskforce has produced two reports, “Eliminating Public Sector Fraud” and “Reducing Fraud and Error in Government”. These reports highlighted the need for local and central government to work together to tackle common fraud threats.
- 4.8 The work of the taskforce identified three areas where changes by central government can contribute to the work of local government in tackling fraud:-
- Introduction of positive incentives for local authorities to tackle fraud
  - Create a framework which encourages more effective information sharing within and between local authorities and between local and central government and the private sector
  - Give professional and trained staff in local authorities the powers to protect public funds.
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- 4.9 The strategy document picks out the following areas where changes in the local authority approach to fraud will be required:-
- Localism was highlighted as an area where fraud risks need to be addressed through robust governance structures being put into place where devolved funding is developed. New fraud risks may also arise through new business tax discounts and planning reform. Local authorities are urged to reassess their fraud risk and design out fraud from the processes and procedures implemented in response to the localism agenda.
  - The fraud control environment - The strategy document emphasises the need for councils to maintain resilience to fraud, and in particular, praises those authorities that have made savings by retaining an effective fraud function by pooling resources or redeploying counter fraud staff to investigate a wider range of threats to the authority.
  - The Single Fraud Investigation Service (SFIS)- The creation of the SFIS is seen as an opportunity to strengthen the local fight against fraud with the SFIS providing support to local authorities in tackling organised and cross boundary fraud.
  - The abolition of the Audit Commission will not result in the loss of the National Fraud Initiative as the government is committed to continuing with this biennial exercise, but new arrangements will need to be established

## **The strategic approach**

### **4.10 Acknowledgement**

The document states that the first step towards tackling fraud is to acknowledge that no local authority is immune. To build an effective anti-fraud culture requires:-

- Strong support from members and Chief Officers
- A risk-based approach to fraud
- The authority having either -
  - fraud identified as a risk on the corporate risk register, or
  - a discrete fraud risk register.
- Regular reports to be made to the Audit Committee, covering levels of detected fraud within the authority, and updates on all aspects of anti-fraud arrangements and outcomes.

The document also recommends the use of peer reviews.

### **4.11 Prevention**

Local Authorities need to move from a reactive to a proactive stance in terms of preventing fraud, reinforcing a zero tolerance culture. The strategy recognises that resources can be sparse. It recommends making better use of information and technology, particularly the following IT-led measures:-

- Data analytics – the use of shared data and fraud intelligence, particularly data matching within authorities and also with partner organisations and neighbours
- National Fraud Initiative (NFI) - this national exercise is moving towards real-time or near real-time fraud prevention activity.
- National Anti-fraud Network (NAFN) - provides data, analytical services and best practice services to members. It collates and disseminates fraud alerts. It's most recent fraud alert successes have been in helping reduce the number of "bank detail frauds" being committed against local authorities.
- E-learning and fraud awareness surveys

### **4.12 Pursue**

This encompasses enforcement action covering the investigation, punishment and recovery of assets and funds. The full range of sanctions should be used, including civil, disciplinary and criminal action. This requires local authority investigators having the professional skills, working within a professional code, being given the appropriate powers, and access to specialist support to be able to carry out this function. The support of a financial investigator is recommended, or a close working relationship with the local police under a memorandum of understanding. It recommends that investigation staff should be trained to the levels agreed by the Counter Fraud Professional Accreditation Board. The strategy recommends the establishment of national agreements between local government, policing, UK Borders Agency (UKBA), DWP and HMRC to tackle cross border frauds and organised fraud.

## The main fraud risks

- 4.13 The document outlines the areas of fraud which are considered to be highest risk, based on “Protecting the Public Purse” (the Audit Commission report published in November 2011), namely;-
- Housing tenancy fraud (subletting, false homeless applications, false successions and right to buy)
  - Council Tax fraud (single person discount, disregard discounts and exemptions)
  - Procurement fraud (including illicit cartel activity, influencing the tender process, false or double invoicing)
  - Grant fraud (inaccurate or fraudulent applications)
  - Employee fraud (misuse of time or resources, fraudulent expenses or allowances claims, failure to register interests, gifts or hospitality, manipulation of finance or payroll systems, recruitment fraud)
  - School related fraud (as schools move away from local authority control, the fraud prevention measures imposed by local authorities may not be continued by the new regime)
  - Personal budgets (overstated needs through a false declaration, multiple claims, third party abuse)

## The Delivery Plan

- 4.15 The document emphasises the need for
- an action plan,
  - appropriate governance arrangements, and
  - new structures to underpin key requirements.
- The document recommends that a “virtual” Local Government Centre of Fraud intelligence be established to form links across current bodies.

## OTHER OPTIONS CONSIDERED

5.1 n/a

This report has been approved by the following officers:

<b>Legal officer</b> <b>Financial officer</b> <b>Human Resources officer</b> <b>Service Director(s)</b> <b>Other(s)</b>	
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<b>For more information contact:</b>  <b>Background papers:</b> <b>List of appendices:</b>	Richard Boneham, Head of Governance and Assurance, 01332 643280 <a href="mailto:richard.boneham@derby.gov.uk">richard.boneham@derby.gov.uk</a> None Appendix 1 – Implications Appendix 2 – Strategy document commitments Appendix 3 – Fighting Fraud Locally Checklist for those responsible for governance
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<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 None directly arising

**Legal**

- 2.1 None directly arising

**Personnel**

- 3.1 None directly arising

**Equalities Impact**

- 4.1 None directly arising.

**Health and Safety**

- 5.1 None directly arising.

**Environmental Sustainability**

- 6.1 None directly arising.

**Asset Management**

- 7.1 None directly arising.

**Risk Management**

- 8.1 The effective management of risk is a core principle of good governance.

**Corporate objectives and priorities for change**

- 9.1 The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

### Commitments required to achieve the strategy

#### From Central Government – Department of Communities and Local Government

- to work with partners to continue the anti-fraud activity of the Audit Commission
- to remove barriers faced in tackling housing tenancy fraud

#### From both Central and Local Government

- to review the powers currently in use by local authorities and how these could be more effective
- to establish a working group to explore incentivising anti-fraud activity in local authorities
- To consider convening a high level oversight board, including the LGA to oversee delivery of the strategy
- LA representative groups to work with the NFA to promote the approach outlined in the strategy and encourage members to use the free tools and good practice bank

#### From the NFA

- to work with central government to review the need for a general power to facilitate the sharing of information for anti-fraud purposes
- to work with local partners to develop plans for a targeted communication campaign to raise the profile of fraud and to praise and recognise local authorities that tackle fraud
- to collate and disseminate best practice, and develop tools to support the assessment of fraud risks
- to work with CIPFA to develop an on-line fraud resource tool to act as a repository for counter fraud guidance
- to work with key stakeholders to revise and refresh the Audit Commissions' Counter-Fraud and Corruption Manual
- to work with DCLG and National Audit Office (NAO) to advocate the introduction of a duty by auditors to assess the adequacy of anti-fraud arrangements
- to work with CIPFA to advocate the inclusion of anti-fraud arrangements in the framework for the Annual Governance Statement
- to work with NAFN and local government to develop the capability and capacity to enable real-time data matching checks and better use of intelligence relating to known fraud and fraudsters
- to work with NAFN and the NFI to produce a detailed design of how local authorities can benefit best from being part of the wider intelligence sharing architecture
- to collate and disseminate best practice in establishing an effective anti-fraud culture, including making a common fraud e-learning tool available
- to support the piloting of fraud prevention tools and data checking services and to develop a framework contract to help local authorities achieve value for money in the purchase of these tools and services
- to work with partners to produce a compendium of powers and penalties to assist local authorities with their law enforcement response
- to work with other enforcement agencies to develop a template for local authorities to set up agreements with local law enforcement agencies
- to collate and disseminate best practice on the use of fraud recovery processes and case building

- to produce guidelines and best practice on how to best tackle grants, insider and procurement fraud
- to work with partners to pilot intelligence and information sharing warehouses based on the Birmingham model

#### **From NAFN**

- to consider provision of specialist resources (e.g. Financial Investigators or analysts), and to co-ordinate the provision of specialist investigative support
- to work with NFA to enhance the alerts system and intelligence capability, and to form links to provide the basis of a local authority prevention strategy

#### **From NFI**

- on-line facilities to be developed to offer a real-time service, and to develop new matches relating to emerging threats

#### **From Society of Local Authority Chief Executives (SOLACE) and LGA**

- SOLACE to work with the NFA, the LGA and other partners to establish a network of local authority Chief Executive “fraud champions” with links to elected members
- SOLACE to work with the LGA to implements Fighting Fraud Locally and it’s recommendations
- LGA to work with partners to develop a mechanism of peer review and support

#### **From individual local authorities**

- to review policies and initiatives where appropriate, and to evaluate fraud risks and build strong anti-fraud controls
- to continually review system weaknesses and assess the effectiveness of controls, making best use of shared information and intelligence on known fraud and fraudsters
- to conduct a fraud risk assessment to identify their own fraud threat and likely fraud risk exposure
- to perform a resilience check on current capabilities
- to keep a record of all suspected and confirmed fraud cases, reporting annually to their Audit Committee on all matters relating to fraud, including an assessment of the effectiveness of the authority’s fraud response
- to review key systems that may be vulnerable to fraud, and ensure key fraud risks are managed effectively
- to develop a response plan
- to deploy data analytic tools in their areas of risk
- to collaborate with NFI and NAFN to develop data warehouses for the purpose of data matching based fraud prevention services across councils
- to develop a programme of activity to embed a strong anti-fraud culture across departments and delivery agents
- to use the changing organisational cultures toolkit
- to ensure staff and public have access to a fraud and corruption whistle-blowing helpline which meets the British Standard
- Each authority to have access to appropriate specialist investigative resource, including financial investigators, exploring the options on sharing these services

- To make arrangements with other authorities or partners to ensure access to a financial investigator
- To adopt a parallel sanctions policy for the purpose of taking disciplinary, civil and criminal action against fraudsters and consider the use of fraud recovery for all instances of fraud
- To secure appropriate training for fraud practitioners in line with agreed professional standards for all types of investigation
- To only employ staff to undertake investigations that are suitable qualified, trained and adhere to a professional code
- To adopt a professional code using the codes held by the Institute of Counter Fraud Specialists as a basis
- To work closely with local law enforcement agencies and put in place locally agreed service level agreements where appropriate.
- To adopt best practice in staff vetting
- To consider membership of the CIFAS staff fraud database
- To work in partnership with Registered Social Landlords to help them tackle fraud
- To adopt good practice on tackling housing tenancy fraud and Council Tax exemption fraud outlined in the NFA guidance
- To be a member of NAFN

### Checklist for those responsible for governance

Expected control	Present control	Future action
The Council has made a proper assessment of its fraud and corruption risks and has an action plan to deal with them and regularly reports this to its senior board and its members	Areas susceptible to fraud are assessed when the Annual Internal Audit plan is devised. Each department should assess any fraud risks as part of the risk management procedure within the annual business planning process.	
The Council has undertaken an assessment against the risks in Protecting the Public Purse and has also undertaken horizon scanning of future potential fraud risks	A report on "Protecting the Public Purse" is presented to committee each year, complete with an assessment of the effectiveness of anti-fraud activity.	
There is an annual report to the Audit Committee or equivalent detailing an assessment against the local government strategy Fighting Fraud locally and this checklist	This is the first report.	
There is a counter fraud and corruption strategy applying to all aspects of the council's business which has been communicated throughout the council and this has been acknowledged by those charged with governance	The Council's Anti-Fraud and Corruption Strategy is approved by members and is reviewed on a three year rolling cycle	
The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business	The Council has a number of policies and strategies already in place – Financial Procedure Rules, Anti-Fraud and Corruption Strategy, Fraud Response Plan, Anti-Money Laundering Policy, Confidential Reporting Code	
The risk of fraud and corruption is specifically considered in the Council's overall risk management process	Fraud is identified as a corporate risk. A guide to fraud risk is in development.	
Counter Fraud staff are consulted to fraud proof new policies, strategies and initiatives across Departments and this is reported upon to Committee	We do not have dedicated counter-fraud staff .	
The Council has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring this is effective and this is reported to Committee	The Council's Anti-Fraud and Corruption Strategy and Fraud Response Plan are in place, as is the Confidential Reporting Code which allows staff to "whistleblow". Any investigated Fraud is reported to Audit and Accounts Committee.	

<b>Expected control</b>	<b>Present control</b>	<b>Future action</b>
<p>The Council has put in place arrangements for monitoring compliance with standards of conduct across the council covering</p> <ul style="list-style-type: none"> <li>Codes of conduct including behaviour for counter fraud, anti-bribery</li> <li>Register of interests</li> <li>Register of gifts and hospitality</li> </ul>	<p>The following are in place:</p> <ul style="list-style-type: none"> <li>Employee and member code of conduct</li> <li>Register of interests</li> <li>Register of Gifts and Hospitality are all in place</li> </ul>	
<p>The Council undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking checks to prevent potentially dishonest employees from being appointed</p>	<p>A pre-employment checking regime is in place, with financial vetting of those appointed to financially sensitive posts taking place.</p>	
<p>Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business, This is checked by auditors and reported to Committee.</p>	<p>This is detailed in the Codes of Conduct.</p>	
<p>There is a programme of work to ensure a strong counter fraud culture across all department and delivery agents led by counter fraud experts</p>	<p>This falls under the remit of the Anti-Fraud Working group.</p>	
<p>Successful cases of proven fraud/corruption are routinely publicised to raise awareness</p>	<p>Internally and through the local media.</p>	
<p>There is an independent Whistleblowing Policy which has been measures against the BSI, which is monitored for take up and it can be shown that suspicions have been acted upon without internal pressure</p>	<p>The Confidential Reporting Code has been approved by members and is reviewed on a 3 year rolling cycle</p>	
<p>Contractors and third parties sign up to the Whistleblowing Policy and there is evidence of this. There is no evidence of discrimination for those who whistleblow</p>	<p>The Confidential Reporting Code covers contractors and other third parties.</p>	
<p>Fraud resources are assessed and adequately resourced.</p>	<p>Counter Fraud is part of the Internal Audit remit and an element of fraud response is part of the Internal Audit annual plan</p>	
<p>There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the Council's business and includes activities undertaken by Contractors and third parties or voluntary sector activities.</p>	<p>There is no specific annual fraud plan. However, the Internal Audit annual plan does provide cover for all areas of Council activity.</p>	
<p>Statistics are kept and reported by the Fraud team which cover all areas of activity and outcomes, benchmarking where appropriate.</p>	<p>Statistics are maintained of all work relating to NFI, the annual fraud survey, investigations carried out and referrals made. These are benchmarked with</p>	

<b>Expected control</b>	<b>Present control</b>	<b>Future action</b>
	colleagues through the Midlands Fraud group.	
Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation	Financial Procedure Rules give Internal Audit access to all documents	
There is a programme to publicise fraud cases internally and externally which is positive and endorsed by the Council's Communication Team	The Head of Governance & Assurance works with the Communications Team on such issues.	
All allegations of fraud and corruption are risk assessed	The Internal Audit fraud report database carries out a risk assessment of each referral	
The written fraud response plan covers all areas of counter fraud work; prevention, detection, deterrence, investigation, sanctions and redress	The Fraud Response Plan is approved by members and is reviewed on a 3 year rolling cycle along with the Anti-Fraud and Corruption Policy/Strategy.	
The fraud response plan is linked to the Audit Plan and is communicated to senior management and members	The annual IA plan (approved by members) includes provision for auditors to carry out or assist with fraud investigations. The fraud response plan is reviewed on a 3 yearly basis.	
Asset recovery and civil recovery is considered in all cases and is linked to a written sanctions policy	We have a corporate prosecution policy and Benefits Investigation have a written sanctions policy. In cases where prosecutions are taken, where appropriate, the Council would make an application for recovery of any financial loss.	
There is a zero tolerance approach to fraud and corruption that is reported to Committee	The Council states that it has a zero tolerance approach in the Anti Fraud and Corruption Strategy. This is reviewed and reported to Committee every 3 years	
There is a programme of proactive counter fraud work which covers risks identified in assessment	This is devised by the Anti Fraud Working group	
The Fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity	The Council works closely with other enforcement agencies, particularly the Economic crime Unit of Derbyshire Constabulary.	
The Council shares data across its own departments and between other enforcement agencies	Data matching exercises are carried out when and where the service fair processing notice permits. We are engaged in the NFI process. BIU carry out matching work through the HBMS service.	

<b>Expected control</b>	<b>Present control</b>	<b>Future action</b>
Prevention measure and projects are undertaken using data analytics where possible	Data matching exercises are used to highlight areas of audit activity.	
The Council actively takes part in the NFI and promptly takes action	Yes	
There are professionally trained staff for counter fraud work trained by professionally accredited trainers using the Counter Fraud Accreditation Board. If other staff undertake counter fraud work they must be trained in this area	The BIU staff are Professionalism in Security (PINS) trained. Four internal auditors have the CIPFA Certificate in Investigatory Practice (CCIP) qualification.	
The counter fraud team has adequate knowledge in all areas of the Council or is trained in these areas	We don't have a separate counter fraud team	
<p>The Counter Fraud Team has access (via partnership / other Las / or funds to buy in) where appropriate to specialist staff for;</p> <ul style="list-style-type: none"> <li>• Surveillance</li> <li>• Computer forensics</li> <li>• Asset recovery</li> <li>• Financial investigations</li> </ul>	Internal Audit has computer forensics capabilities and works with Derbyshire Constabulary on such issues. Benefits Investigation does surveillance, but also has access through the DWP. Trading Standards buys in computer forensics.	
Weaknesses revealed by instances of proven fraud and corruption are looked at and fed back to Departments to fraud proof systems.	After each fraud investigation, a report is sent to management highlighting areas where procedures require amendment to reduce or remove the risk of further fraud.	