

REPORT FROM: AUDIT MANAGER

TO: ACCOUNTS AND AUDIT COMMITTEE

DATES: 28th September 2017

Report Author: Farhan Khaliq
Tel. No: 01282 661875
E-mail: farhan.khaliq@pendle.gov.uk

MANAGING THE RISK OF FRAUD, THEFT AND CORRUPTION

1. The purpose of this report is:-

- a) To make Members aware of the Council's assessment against the "Fighting Fraud and Corruption Locally 2016-19" checklist.
- b) To update the Committee on the Council's anti-fraud, theft and corruption arrangements.

RECOMMENDATIONS

2. It is recommended that Members:-

- a) Note and consider the Council's assessment against the "Fighting Fraud and Corruption Locally 2016-19" checklist and action plan.
- b) Note the work which has been undertaken to manage and mitigate the risk of fraud, theft and corruption within the Council's activities.

REASONS FOR RECOMMENDATIONS

- 3. To keep the Committee up to date with information concerning the Council's Anti-Fraud Theft and Corruption arrangements.

Introduction

- 4. Pendle Borough Council does not tolerate fraud, theft and corruption within its overall governance arrangements. There are two elements within its strategy; reporting benefit fraud to the (Department of Work & Pensions) DWP's Single Fraud Investigation Service (SFIS) and investigating and reporting on all instances of fraud and corruption within its local service arrangements. Liberata now refer suspected Housing Benefit fraud cases to the SFIS, whilst continuing to investigate Council Tax Reduction Fraud and completing the National Fraud Initiative (N.F.I.) matches and the second internal element is provided by the services of the Internal Audit Unit.

Fighting Fraud Locally

5. In September 2016, we reported on the Government's Anti-Fraud Strategy – "Fighting Fraud Locally 2016-19" and that an assessment against of the Council's position would be undertaken.
6. Fighting fraud and corruption locally is a strategy for English local authorities' that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. The strategy and associated Companion document can be viewed by the following link :-

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>

7. The strategy states that fraudsters cost the local tax payer millions of pounds each year and places the emphasis on council leaders and senior staff to provide the local leadership to take action to protect the public purse. Council's must ensure that they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation.
8. The strategy recommends that each local authority is to perform its own risk assessment and fraud resilience check. Our assessment against the Fighting Fraud and Corruption 2016-19 checklist has been completed and is contained at **Appendix A**; the last assessment was completed in 2012 against the previous strategy.
9. When completing the checklist and identifying potential areas for further action, responses have been kept proportionate to the perceived risk and resources available. An action plan has been developed to address any issues arising, **Appendix B**. The checklist shows that the Council can demonstrate that it has a good anti- fraud culture and that there are proportionate measures in place to prevent and detect fraud particular in risk areas of Housing Benefit/Council Tax, Procurement, Payroll and Cash Collection.
10. Fundamentally, it is the role of Senior Managers to ensure that, for the services within their remit, there are adequate internal controls in place to reduce the risk of fraud. With the reduction in staffing resources across the Council, there is an increased risk that controls such as internal check and division of duties may be diluted. The implementation of the action plan will further strengthen the anti-fraud culture. It is intended the matters raised in the action plan will be implemented over the next few months and an update presented to Members in due course.
11. Additionally, to ensure these measures are kept at the forefront of employees' minds, it is intended to raise fraud awareness across the Authority via a refresh and reminder of the Council's Anti-Fraud, Theft and Corruption and associated policies.
12. Annually, C.I.P.F.A gives a national picture of fraud, bribery and corruption in the UK's public sector and actions being taken to prevent it. The survey conducted by the CIPFA Counter Fraud Centre looks at trends and emerging threats in the sector. The results of the 2017 survey will be due out shortly and we will review and incorporate the findings within our planning and report back to this Committee.
13. The Council aims to provide excellent public services and needs to ensure propriety and accountability in all matters; it is determined to protect itself, its employees and the public from fraud, theft and corruption and is committed to the rigorous maintenance of a strategy for its prevention and detection.

Benefit Fraud

1. In April 2015, a new Single Fraud Investigation Service (SFIS) took responsibility for the investigation of Benefit Fraud for Pendle. This is operated by the Department of Work & Pensions (DWP) and entailed the TUPE transfer of a member of the investigation staff from the Council to the DWP.
2. Two part-time members of staff remain with Liberata to deal with Council Tax Support claims and liaise with DWP in all benefit fraud related matters.
3. Since HB fraud transferred to SFIS on 1st April 2015 we have sent 315 (276) fraud referrals, 37 of which were from the 2014-15 NFI exercise. We previously included referrals from the public received either by anonymous letter or by phone but these are now sent directly to the DWP. The 2016-17 NFI exercise is currently ongoing and 1474 matches in total have been scrutinised with further checks conducted where appropriate, which has resulted in 30 cases being referred to SFIS for further investigation awaiting action by DWP.
4. Although SFIS don't advise whether referrals are accepted or rejected, we liaise on a daily basis with local SFIS officers regarding cases where they have accepted the referral and starting an investigation. We also review the outstanding cases every 6 months to ensure that if any of the rejected cases have not been passed to DWP Compliance for review, then we have looked or are looking into the original referral in order to establish the correct amount of Housing Benefit/Council Tax Support is in payment.

Overpayments

5. Attached at [Appendix C](#) is a breakdown of the 2017-18 Housing Benefit fraud cases which have been investigated by SFIS and the results reported. Details are provided of the amount recovered up to 19th September 2017, the recovery rate and the number of cases involved.
6. There are various avenues available to recover the fraudulent overpayments. Recovery action varies dependant on the individual circumstances of the case.
7. Attached at [Appendix D](#) is the year on year comparison of recovery of overpayments from 2008 – 09 to the current date. It's worth noting that the reduction in reported sanctions is clearly evident since SFIS took responsibility for the investigation of Benefit Fraud from April 2015.

National Fraud Initiative/Data Matching Update

8. The Council participates in the National Fraud Initiative which is now managed by the Cabinet Office.
9. The NFI is undertaken on a bi-annual basis and is a process by which the Council provides a range of datasets to the Cabinet Office, who then undertake an in-depth data matching exercise. The datasets come from a variety of sources such as Housing Benefit/Council Tax Support Claimants, Payroll, Insurance Claims, Elections, Markets, Taxi Licensing etc.
10. Details of the data matches are returned to the Council via the NFI website and the Council is required to systematically investigate each of the matches to determine whether there are any instances of fraud. The matches are risk assessed – high, medium, low – according to the likelihood of a fraud which allows resources to be directed appropriately.

Internal Fraud and Investigations

11. There have been no reported incidents of fraud investigated by Internal Audit Unit during the period. There was one incident of a break-in which was reported to the Police and investigated by Internal Audit.

IMPLICATIONS

Policy: There are no policy implications arising from this report.

Financial: There are no financial implications arising directly from the contents of this report.

Legal: There are no legal implications arising from the contents of this report.

Risk Management: The risk of fraud in relation to Council activities is taken into consideration both as part of the Council's general approach to risk management and also in the development of the Internal Audit Plan from year to year.

Health and Safety: There are no Health and Safety implications arising directly from the contents of this report.

Climate Change: There are no climate change implications arising directly from this report.

Community Safety: There are no community safety issues arising directly from the contents of this report.

Equality and Diversity: There are no equality and diversity issues arising from the contents of this report.

Appendix A

Fighting Fraud and Corruption Locally 2016 – 19 Checklist

A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible outcomes. It should aim to create a transparent process and report the results to the corporate management team and those charged with governance.

You are encouraged to use this checklist to measure your counter fraud and corruption culture and response.

	Issue	Status	Comments/Observations
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.	Partial	<p>The Council's risk based approach to audit planning and its Internal Audit Plan recognises areas of significant risk by targeting audit resources accordingly. This process also highlights areas of Council activity where risk of fraud is higher and the audit plan reflects these areas. Examples of significant areas include Benefits; Cash Collection and Procurement.</p> <p>To further enhance this process a fraud risk register will be compiled by Internal Audit in liaison with Service Managers.</p>
2	The local authority has undertaken an assessment against the risks in Protecting the Public Purse: Fighting Fraud Against Local Government (2014) and has also undertaken horizon scanning of future potential fraud and corruption risks.	Yes	Yes. Future potential fraud and corruption risks considered as part the annual audit planning process.
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against Fighting Fraud and Corruption Locally (FFCL) 2016 and this checklist.	Partial	<p>The C.I.P.F.A. Counter Fraud Centre's Checklist for "Fighting Fraud Locally" was attached at Appendix D for Members' information (Sep 16).</p> <p>This piece of work, 2016 checklist, reported to the September meeting should ensure that this requirement is fully met.</p>
4	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.	Yes	<p>There is Anti- fraud, Theft and Corruption Strategy which has previously been presented to the Accounts and Audit Committee for approval.</p> <p>The Strategy is annually communicated throughout the local authority and acknowledged by those charged with governance. The Strategy will be updated and circulated to all staff members.</p>
5	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the	Yes	Internal control arrangements throughout the council are assessed by internal audit.

	conduct of its business.		There are Employee and Members Codes of Conducts in place, registers of gifts and hospitality and a requirement to declare any business interests. The Council's constitution sets out how it operates, how decisions are made and the procedures which are followed to ensure that decision making is transparent.
6	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	Yes	The Council has in place robust arrangements for identifying and responding to the risk of fraud. This includes a number of related policies and strategies including; for example an Anti-fraud, Theft and Corruption Policy; Whistleblowing Policy; Bribery Policy; Money Laundering Policy; a Fraud Response Plan and process for dealing with Benefit Fraud. Work carried out of the above is reported to the Accounts and Audit Committee regularly.
7	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Yes	Counter fraud staff have moved over to the DWP (SFIS April 2015). Consultation takes place on fraud policy changes with Service Managers.
8	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Yes	The investigation of benefit fraud has moved to the DWP (SFIS). We continue to receive information on successful fraud investigations.
9	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	Yes	Management are responsible for ensuring that there are adequate systems in place to prevent fraud and corruption in their respective service areas. Internal audit assess the internal controls in place and the operation of these controls. Internal audit report quarterly (<i>subject to change to 6 monthly</i>) to state if any fraud and corruption has been identified in the areas reviewed.
10	The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering: – codes of conduct including behaviour for counter fraud, anti-bribery and corruption. – register of interests. – register of gifts and hospitality.	Yes	Codes of conduct are included within the Constitution. Officers are required to declare any interests. There is an Anti- fraud, Theft and Corruption Strategy. There is also a Gifts and Hospitality Policy and Officers are required to declare and record any offers of gifts and hospitality and if they were accepted or not.
11	The local authority undertakes recruitment vetting of staff prior to	Yes	Standard recruitment procedures are in place to vet staff prior to them being

	employment by risk assessing posts and undertaking the checks recommended in FFCL 2016 to prevent potentially dishonest employees from being appointed.		<p>employed including:-</p> <ul style="list-style-type: none"> • Taking up references • DBS checks where appropriate • Verification of qualifications • Right to work checks
12	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.	Yes	<p>Staff were reminded in March 2017 of the need to declare any offers of gifts and hospitality.</p> <p>Internal Audit periodically reviews gifts and hospitality procedures.</p>
13	There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.	Yes	<p>The Council does not have any counter fraud experts but Internal Audit cover the whole of the organisation and this is seen as proportionate to the size of the organisation.</p> <p>Fraud surveys and online training has been carried out in the past.</p>
14	There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	Yes	<p>There is a whistle blowing (Confidentiality Reporting) policy in place and published on the Council's website.</p> <p>All whistle blower complaints are treated seriously and investigated in line with the Whistleblowing (Confidentiality Reporting) policy.</p> <p>The Council's Monitoring Officer is responsible for ensuring that this takes place. The operation of the Council's Whistleblowing Policy is promoted to staff annually.</p>
15	Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.	Yes	<p>The risks associated with the procurement of contracts are evaluated in accordance with the Council's Risk Management Framework and the likely consequences assessed accordingly. Whistleblowing forms part of standard contract conditions and all staff engaged in procurement are trained in the process. The whistle-blowing policy applies to all.</p>
16	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	Yes	<p>There are no counter fraud specialists but the internal audit plan covers all of the Council's activities. In addition there is a good awareness amongst staff of the importance of preventing, detecting and reporting fraud.</p> <p>There are 20 days allocated to the fraud matters in the internal audit plan.</p>

17	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 local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.	Yes	There is not a specific fraud plan but the annual audit plan covers all of the Council's activities based on a needs risk assessment. This is considered proportionate to the risk.
18	Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	Yes	A Managing the risk of fraud report is provided to the A&A Committee quarterly which includes information of HB fraud and NFI work and also internal fraud. There is also a TEICCAFF annual survey is completed
19	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	Yes	PBC does not have specific fraud officers however Internal audit have those rights of access if required.
20	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.	Yes	Benefits cases are now referred to the DWP. Other instances of fraud and corruption would be reported as appropriate.
21	All allegations of fraud and corruption are risk assessed.	Yes	Any reports of fraud and corruption allegations are thoroughly investigated and the police consulted at an early stage where appropriate.
22	The fraud and corruption response plan covers all areas of counter fraud work: – prevention – detection – investigation – sanctions – redress	Yes	There is a Fraud Response plan in place. Internal Audit would investigate appropriately.
23	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	Yes	There is a Fraud Response plan. Internal audit work is reported to Members. Internal audit is the key contact for NFI and help to ensure that matches are appropriately investigated.
24	Asset recovery and civil recovery is considered in all cases.	Yes	This would be considered if the situation arose
25	There is a zero tolerance approach to fraud and corruption which is always reported to committee.	Yes	This is specified in the Anti- Fraud, Theft and Corruption policy. Any identified incidences would be reported to the Accounts and Audit Committee.
26	There is a programme of proactive counter fraud work which covers risks identified in assessment.	Yes	The internal audit plan is risk based which takes in to account the risk of fraud.
27	The local authority shares data across its own departments and between other enforcement agencies.	Yes	There is no dedicated fraud team. However, the Council ensures any concerns are reported to the appropriate agencies. Internal audit is a member of LDAG audit groups where investigations and fraud issues are discussed.

28	The local authority shares data across its own departments and between other enforcement agencies.	Yes	The Council actively participates in the NFI work and will notify other agencies of concerns where appropriate.
29	Prevention measures and projects are undertaken using data analytics where possible.	Yes	The results of completed C.I.P.F.A. fraud surveys (last done in April 2016) are used to identify emerging fraud areas and to verify if appropriate internal controls are in place. Awaiting results of the 2017 survey to inform future planning. Participation in NFI
30	The local authority actively takes part in the National Fraud Initiative (NFI) and promptly takes action arising from it.	Yes	NFI results are investigated and acted upon. Internal audit will report on the findings.
31	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.	Partial	The Council does not have any professionally trained and accredited counter fraud staff. Internal Audit staff have the experience to investigate allegations of fraud and corruption. If specialist advice is required the appropriate resource would be bought in.
32	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.	Partial	The Council does not have a counter fraud team. The internal audit team has knowledge of all the Council's operations and will investigate allegations.
33	The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for: – surveillance – computer forensics – asset recovery – financial investigations	Partial	The Council does not have a counter fraud team Specialist knowledge would be bought in where appropriate i.e. Computer forensics.
34	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.	Yes	This would occur if the situation arose

Appendix B

Fighting Fraud Local Checklist - Action Plan

Issue	Requirement	Further Action required	By Whom
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members	A specific fraud and corruption risk register will be compiled by Internal Audit in conjunction with Service Managers.	Audit Manager
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against Fighting Fraud and Corruption Locally (FFCL) 2016 and this checklist.	Completion and presentation of a report based on the checklist and our own internal assessment on an annual basis and 6 monthly update to replace the current quarterly format.	Audit Manager
4	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.	To review and update (if required) the Anti- Fraud, Theft and Corruption policy and associated policies to ensure that these remain current and meet the Council's requirements.	Audit Manager
31 32 33	<p>There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.</p> <p>The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.</p> <p>The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for:</p> <ul style="list-style-type: none"> – surveillance – computer forensics – asset recovery – financial investigations 	The Council does not have any professionally trained and accredited counter fraud staff. Internal Audit staff have the experience to investigate allegations of fraud and corruption. Continue to attend relevant training courses/seminar on counter fraud to enhance Internal Audit skills set and seek out shared knowledge with relevant professionals.	Audit Manager

Appendix C – Breakdown of Overpayments 2017-18

SFIS - HB Fraud Overpayments & Recovery 2017/18 - at 19/09/17

Q1 - April to June 2017

Sanction	HB Overpayment	Recovered as at 19/09/17	Recovery Rate	No. of Cases
Administrative Penalty	£4,263.88	£0.00	0%	1
Prosecution	£3,078.15	£1,263.53	41%	2
Q1 Totals	£7,342.03	£1,263.53	17%	3

Q2 - July to September 2017

Sanction	HB Overpayment	Recovered as at 19/09/17	Recovery rate	No. of Cases
Administrative Penalty	£4,336.04	£0.00	0%	1
Prosecution	£0.00	£0.00	0%	0
Q2 Totals	£4,336.04	£0.00	0%	1

Q3 - October to December 2017

Sanction	HB Overpayment	Recovered as at 19/09/17	Recovery Rate	No. of Cases
Administrative Penalty				
Prosecution				
Q3 Totals				

Q4 - January to March 2018

Sanction	HB Overpayment	Recovered as at 19/09/17	Recovery Rate	No. of Cases
Administrative Penalty				
Prosecution				
Q4 Totals to date				

Totals to date so far for year 2017/18

Sanction	HB Overpayment	Recovered as at 19/09/17	Recovery Rate	No. of Cases
Administrative Penalty	£8,599.92	£0.00	0%	2
Prosecution	£3,078.15	£1,263.53	41%	2
Totals	£11,678.07	£1,263.53	11%	4

Appendix D – H.B. Fraud & Overpayments Recovery by Year

		overpayment created	amount recovered in year	recovery rate in year	no of cases
<u>Formal</u>					
<u>Cautions</u>					
	2008/09	£11,965.05	£5,567.32	47%	16
	2009/10	£33,938.30	£10,495.16	31%	25
	2010/11	£46,987.75	£14,361.48	31%	26
	2011/12	£91,850.85	£19,991.78	22%	32
	2012/13	£54,841.70	£9,211.16	17%	22
	2013/14	£41,328.76	£10,006.63	24%	18
	2014/15	£18,954.66	£2,633.41	14%	6
	2015/16	(SFIS/DWP do not administer Formal Cautions)			
<u>Administrative</u>					
<u>Penalties</u>					
	2008/09	£4,382.47	£2,366.90	53%	6
	2009/10	£3,873.48	£1,001.18	26%	5
	2010/11	£3,406.09	£3,406.09	100%	1
	2011/12	£5,223.73	£5,120.59	98%	2
	2012/13	£1,091.18	£726.30	67%	2
	2013/14	£29.94	£0.00	0%	1
	2014/15	£0.00	£0.00	n/a	0
	2015/16	£4,258.71	£1,451.46	34%	5
	2016/17	£17,409.61	£4,396.21	25%	7
(to 19/09/17)	2017/18	£8,599.92	£0.00	0%	2
<u>Prosecutions</u>					
	2008/09	£47,086.02	£3,795.74	8%	11
	2009/10	£17,394.16	£1,789.93	10%	7
	2010/11	£51,846.20	£6,823.34	13%	12
	2011/12	£43,992.44	£2,604.25	6%	11
	2012/13	£50,282.49	£6,467.39	12%	13
	2013/14	£75,469.08	£13,322.79	18%	17
	2014/15	£43,733.74	£14,957.88	34%	11
	2015/16	£56,170.44	£4,814.63	9%	5
	2016/17	£29,978.42	£92.44	0%	4
(to 19/09/17)	2017/18	£3,078.15	£1,263.53	41%	2
<u>Total</u>					
<u>Sanctions</u>					
	2008/09	£63,433.54	£11,729.96	18%	33
	2009/10	£55,205.94	£13,286.27	24%	37
	2010/11	£102,240.04	£24,590.91	24%	39
	2011/12	£141,067.02	£27,713.62	20%	45
	2012/13	£106,215.37	£16,404.85	15%	37
	2013/14	£116,827.78	£23,329.42	20%	36
	2014/15	£62,688.40	£17,591.29	28%	17
	2015/16	£60,429.15	£6,266.09	10%	10
	2016/17	£47,388.03	£4,488.65	9%	11
(to 19/09/17)	2017/18	£11,678.07	£1,263.53	11%	4