

NORTH LINCOLNSHIRE COUNCIL

AUDIT SUB-COMMITTEE

COUNTER FRAUD POLICIES AND STANDARDS

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide the Audit Sub-Committee with an appropriate level of assurance that counter fraud arrangements are adequate.

2. BACKGROUND INFORMATION

- 2.1 The Counter Fraud Strategy sets out the council's determination to deter, prevent and detect fraud and safeguard its assets. The Strategy is revised periodically to reflect changes in legislation and recommended best practice guidance. This ensures that the council remains at the forefront of the prevention and detection of fraud and corruption.
- 2.2 The Strategy encompasses policies and procedures that collectively help drive down the risk of fraud and provide a framework to investigate instances of potential fraud. Over the last year or so the Strategy has been significantly strengthened and little further alteration is required. Key officers' titles have been updated, Pittwood House changed to the Civic Centre and Audit Sub-Committee arrangements have been reflected in the Strategy. Given the minor nature of the changes made and overall size of the document the Strategy has not been included with this report but is available on the website or on request.
- 2.3 The Audit Commissions annual report on fraud 'Protecting the Public Purse' was issued in November. Its main messages and council's response are reported in a separate report elsewhere on this agenda.
- 2.4 Counter fraud work continues to be an important feature in the audit plan. Resources have been identified for preventative work and a contingency for responsive work such as investigations. During 2011/2012 emphasis has been placed on counter fraud work in response to CIPFA and Audit Commission guidance and the increased

risk of fraud across the public sector as a result of the economic conditions. A summary of the work is provided in appendix A.

2.5 Promotional work on the council's counter fraud arrangements and warning bulletins issued via the council wide communication network of potential new or emerging risks of fraud help raise awareness of the council's determination to counter fraud. The quarterly counter fraud newsletter 'Fraud Focus' provides an important opportunity to remind staff of counter fraud policies and emerging risks. Contributions have been made by colleagues across the council involved in countering fraud. November's edition is attached in appendix B and contains an article on the insurance fraud.

2.6 Referrals received via the Whistleblowers' hotline have increased steadily over the last few years:

Year	Referrals received
2005/2006	89
2006/2007	147
2007/2008	164
2008/2009	194
2009/2010	256*
2010/2011	221
2011/2012 (to end of Nov)	221

(* high number of spurious calls -67)

This would indicate that:

- The facility is properly promoted
- Users feel confident to use it.

2.7 Overall the number of fraud investigations has decreased on last year; 29 (to date) – 23 lead by audit/ 6 lead by HR- compared with 54 (42 audit/ 12 HR) during 2010/11. However the scale of the investigations has risen and resulted in more audit resources deployed and investigation work with the Police. Several cases have not yet been concluded however 2 staff were dismissed, 2 have resigned, one officer received a warning, 11 cases were not proven, and no further action was taken in one case at the request of the service area. The cases included email and internet abuse; cash/income anomalies; failing to safeguard or misuse of assets or equipment; flexi or timesheet anomalies and misuse of position.

2.8 The Benefits Fraud Team continues to work proactively and has achieved successful outcomes during 2011/12:

- 14 cases successfully prosecuted and sentenced
- cases at court where the defendants have pleaded guilty and are awaiting sentence
- 8 cases listed at court for prosecution.

- 71 customers who have received Formal Cautions or Administrative Penalties as an alternative to prosecution.

Investigations have identified overpaid housing benefit of £292,547, overpaid council tax benefit of £120,495 and overpaid DWP benefits totalling £294,024.

- 2.9 The Benefit Fraud team will be affected by changes planned by the government as part of its welfare reform agenda. The government intend to replace many existing benefits with a single Universal Credit the first applications for which are expected to be made in Autumn 2013, consequently as there will be one main benefit it makes sense to have a single investigation team to investigate allegations of fraud.

The Government announced in late 2010 that it would create the "Single Fraud Investigation Service (SFIS)" by merging the fraud functions of DWP, HMRC and Local Authorities and it was initially intended to have the new service in place by April 2013. As part of its commitment to tackling benefit fraud it also proposed to increase staffing by an additional 200 posts.

Subsequently it became apparent that it was too big a task to merge the three fraud teams by April 2013 therefore the DWP undertook a consultation exercise with local authorities and, based on the responses received, submitted a proposal to the government that full integration of all fraud staff be deferred until April 2015 however from 01 April 2013 all LA benefit fraud staff, whilst still being employed by the local authority, would operate under SFIS powers, policies and procedures thereby bringing all fraud staff together under a procedural change.

On 01 December 2011 the DWP wrote to all LA's to advise that the government had agreed to the DWP's proposal although emphasising that this was only an interim option. Further details about SFIS will be provided as they are announced.

- 2.10 The Audit Commission's National Fraud Initiative (Data Matching) exercise 2010-2011 data were received last February for investigation during 2011/12. To date £139k (£13k creditors and £126k benefits) overpayments have been identified. NFI now includes additional data sets and potential matches (e.g. home office records to taxi drivers and market traders; insurance claims to benefits records). Sixty seven reports have been received for investigation; these contain 8,501 matches. Good progress has been made and to date 7,105 have been addressed and 289 are in progress. Further updates will be reported to the Sub-Committee when the work is completed.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether the Counter Fraud Strategy will continue to provide sufficient assurance on the council's counter fraud arrangements in 2011/2012 and 2012/2013. Members are also asked to consider whether regular reports on proactive and reactive fraud work (similar to those shown in appendix A) will provide sufficient assurance on the adequacy of counter fraud arrangements during 2011/2012 and 2012/2013.
- 3.2 The Committee may decide make further amendments to the Counter Fraud Strategy. The Committee may also decide that the system of regular update reports does not provide sufficient assurance on the adequacy of counter fraud arrangements in place and may seek alternative arrangements.

4. ANALYSIS OF OPTIONS

- 4.1 The Counter Fraud Strategy complies with statutory requirements and professional guidance available and is designed to provide this Committee with the assurance required. Members should seek further clarification if required to ensure the Strategy and work programme will provide sufficient assurance to fulfil their role as set out in the Sub-Committee's terms of reference.
- 4.2 The option set out in 3.2 represents an opportunity missed to receive an important source of assurance to assist the Sub-Committee to fulfil its role effectively.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 Costs of revising the strategy, and implementing the counter fraud actions are met from the Internal Audit budget and have been incorporated into the 2011/2012 Audit Plan. Minor costs associated with the telephone and publicity for the Hotline will continue to be maintained within the Finance Service budget. Savings should continue to accrue as a result of improved efficiency and the avoidance of loss.
- 5.2 There are no additional staffing implications, as the internal audit section will continue to operate the Hotline from within existing resources. Training of staff in revisions to the strategy and investigation procedures will be met from the training contingency included in the audit plan. Training of staff outside the audit team will be resourced from time set aside in the Audit plan to develop counter fraud arrangements.

5.3 An effective Counter Fraud Strategy demonstrates the council has good arrangements in place to support the Annual Governance Statement and to promote good corporate governance.

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)

6.1 The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs.

The council's arrangements to prevent, detect and deter fraud and corruption comply with relevant legislation such as, Public Interest Disclosure Act 1998, Regulation of Investigatory Powers Act 2009 Proceeds of Crime Act 2002 (as amended by the Serious Organised Crime and police Act 2005), Terrorism Act 2000 (as amended by the Anti Terrorism and Security Act 2001 and Terrorism Act 2006), the Money Laundering Regulations 2003 and 2007 and the Bribery Act 2010.

6.2 The Diversity Impact Assessment tool has been applied to ensure that further consultation is not required.

7. OUTCOMES OF CONSULTATION

7.1 The Counter Fraud Strategy has been revised in consultation with relevant staff from Finance, Human Resources and Legal and Democratic Services to ensure compliance with relevant legislation and council procedures.

8. RECOMMENDATION

8.1 That the Audit Sub-Committee notes the report and that minor changes have been made to the Counter Fraud Strategy and considers whether the counter fraud work programme delivers a sufficient level of assurance on the adequacy of counter fraud arrangements.

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Background Papers used in the preparation of this report :
CIPFA Risk of Fraud Red Book

Internal Audit Plan 2011/12 Counter Fraud Summary

Area	Scope	Planned Days	Progress
Creating and maintaining the anti fraud culture			
Publicity	Continued development of system, promotional and awareness raising activities, refresh to risk assessments, and strategy	5	A publicity campaign has included PC screensavers, leaflets, posters and payslip inserts. An eLearning training package on the Bribery Act has been run and a further package covering the counter fraud strategy and anti money laundering is being developed to be supported with a new desktop campaign.
Counter Fraud Strategy/risk assessments	Keeping the strategy current, and ensuring risk assessments are up to date	5	The Strategy was updated and risk assessments refreshed to take into account the implications of the Bribery Act. The Strategy will again be refreshed for minor amendments and annual approval
Joint reporting	Ensure co-operation across all departments to be able to accurately assess fraud risk for the council	5	Joint working protocols are in place with the HR and the police, both have been refreshed during the year. Information sharing is in place with other councils via the Unitary Authority Groups. Joint working with other public sector organisations such as North Lincolnshire homes is being considered.
Prevention			
Designing out fraud	Advice in areas where changes to systems are proposed	10	Audit have supported the revenues BACS payments project currently being implemented. A review of the new elncome system is also underway. Audit provide support and advice as part of system changes and the wider worksmart project on an ad hoc basis.
Deterrence			
Fraud Newsletter and Council Wide Communications	Publication of a quarterly newsletter and issue of alerts and council wide communications	5	The newsletter is now a regular item with articles covering current national and local anti fraud topics. Other departments across the council such as Benefits, Trading Standards and Insurance have provided articles. The police have also provided an article on local frauds. North Lincolnshire Homes have indicated that they would like to utilise the publication to joint benefit.
Detection			
Data Matching – National Fraud Initiative (NFI)	Audit assistance in the annual exercise of data matching. In 2010/11 council tax matches and data submission for 2011/12 full exercise	30	The 2010/11 exercise has been significant with extra match reports being added throughout the year. Savings to date are in excess of £139k. The council tax and electoral registration data was submitted in December and results are expected in early 2012. These matches will be investigated in conjunction with the current Experian exercise taking place in Local Taxation. Controls in place to prevent benefit payments being made to individuals who are not the registered tenant in NLH properties have been evaluated. Tenancy checks have now been included in the NFI exercise.
Hotline	Audit response to allegations received via the hotline	30	There continues to be an increase in calls received and the hotline is continually publicised via the Fraud Focus newsletter.
Money Laundering	Provision of the system set up client identification checks with services	0	A council wide eLearning package that will include a summary of the council's anti fraud arrangements is being developed. Targeted

			eLearning training for those staff in high risk areas is also being developed.
Investigation			
Proactive – misuse of council funds audits	Rolling programme of audits of potential misuse of council funds.	15	Internet use is now monitored via exception reports, followed up by further investigation if necessary. A regular review of transparency reports has also been introduced. A timesheet audit has been concluded which identified only minor issues. A review of leave policies highlighted errors in calculation and administration of part time staff and those working compressed hours in one directorate.
Proactive – investigation of high risk income collection areas	Income based audits (5 sites)	50	Audits of high risk income collection sites have taken place during the year.
Proactive – development of IDEA software	To identify areas where software can be used to detect and investigate fraud	10	IDEA training was provided and a duplicate creditor exercise to compliment the NFI exercise was carried out. Savings in excess of £11k have been identified so far
Reactive Investigations		As required	



fraud focus

North Lincolnshire Council's counter-fraud newsletter **No. 6** November 2011

Insurance fraud - a victimless crime?



Police aware
Council's fraud
fighting partner **p4**

In times of recession, insurance fraud increases. Many see it as a victimless crime and submit an incorrect or inflated claim. Others – serial claimants – make more than one claim and can, as in the case below, make a living from fraudulent claims.

However the insurers are turning to an ever-increasing range of methods to identify fraudulent claims. Sophisticated databases are in place listing all claims. These allow serial claimants to be identified.

Although claims may be made in different names or cities for different losses or accidents, the insurance company software enables them to determine fraudulent claims where the same mobile phone has been used, or payment made to the same bank accounts. This can prevent fraudulent claims being made in the first instance.

The insurance companies also submit data to the National Fraud Initiative, in which the council takes part. This allows public sector organisations to see matches where individuals have made claims across a number of councils and could therefore be serial claimants.

Two Burnley brothers were jailed for a total of 11 years in September for a 'crash for cash' scam that allowed them to net almost £2 million from over 80 staged road collisions.

The insurance companies and the innocent victims are ultimately the victims but, as insurance premiums rise, so are all policyholders.

The recently established Insurance Fraud Bureau reports that £1.9 billion of undetected general insurance claims cost the average policy holder an

additional £44 each year. Their website www.insurancefraudbureau.org allows you to report insurance fraud online or use the 0800 328 2550 cheatline. The site also gives useful advice on 'crash for cash' fraud

If you are aware of any suspicious insurance claim activity against the council, you should report it via our hotline or website. You do not have to leave your name, and all information received will be treated in confidence.



Crash for cash - fraudsters stage fake accidents



Lost bottle
Fake vodka sold
locally **p3**

What is fraud?

In past articles we have given information on various types of fraud but have also stated that there are countless examples of fraud.

The Serious Fraud Office has worked with the police, HMRC, DWP and many other public bodies to arrive at a categorisation model of frauds. It sets out seven areas, for example: Public sector; Market Abuse; Charity Fraud etc. Within these areas are further categories for the public sector, including the council. These are:

Internal fraud/bribery which includes:

- ◆ Payment fraud – payments to fraudulent customers, false claims for payment
- ◆ Procurement fraud – buying goods with council funds for personal use, manipulating the tendering procedures
- ◆ Travel, subsistence – pay and allowance fraud, claiming for allowances such as travel when journeys have not been made
- ◆ Personnel management – working while sick, claiming hours worked when they were not, abuse of flexi time policy
- ◆ Exploiting assets and information – using the assets of the service for personal gain
- ◆ Receipt Fraud – stealing cash or cheques or



Blue badge - one possible area of public sector fraud

allowing services free of charge for an incentive

Public funding and Grants – fraudulent or incorrect claims for grants and council funds:

- ◆ Local Tax and Benefits fraud – avoiding payment or the full payment of council tax and NNDR and in the case of the NHS, failing to pay prescription charges. False or incorrect claims for benefit are included as a national fraud
- ◆ Public sector service provision – fraudulent use of a public service for which there is no entitlement. For example, misuse of blue badges to avoid parking costs.

The above list is a useful explanation of fraud in the public sector and shows most of the examples of fraud experienced by councils. It is worth pointing out that the council has arrangements in place to prevent and detect fraud in all these areas. It will always take decisive action in all cases, including police action where appropriate. The council also has a confidential reporting line to report suspicion of any of the above. Even if your concern is not listed above, you can speak to a member of the Internal Audit Team, or email via the website. You do not have to give your name, and all details will be treated in the strictest confidence.

National fraud news

Churchill Insurers and online fraud experts have released research that shows many consumers are not doing enough to protect personal information stored on devices such as phones and iPods. Almost 40 per cent of all devices lost or stolen in the last two years were not password protected. This can leave people vulnerable to online fraud. And the risk is increasing, with people using devices to access their

bank accounts.

The number of scam emails purporting to be from HM Revenue and Customs has risen three-fold: 24,000 emails were issued in August alone and HMRC confirmed it is shutting down 100 scam websites a month. If you do receive an email from the HMRC saying you are due a tax refund, it is fraudulent. HMRC does not contact its customers in this way – all correspondence is via letters. The

email is likely to ask for your bank details, which can then end up in the hands of fraudsters.

The National Fraud Authority is conducting a nationwide online survey of 33,000 charities to determine their losses due to fraud. The only available estimate suggests losses of £1.3 billion per year. Funds diverted from charities have a double effect in they are not available for those that the charities were set up to help.

Local fraud news: vodka scam

Bottles of illegal vodka have been seized from a shop in Scunthorpe by North Lincolnshire Council Trading Standards officers.

The seized bottles are labelled as Drop Vodka. Anyone who has bought Drop Vodka should not drink it.

The bottles have been found to contain methanol and isopropyl or rubbing alcohol, which is used as a cleaning fluid and can be found in aerosol windscreen de-icers.

Drop Vodka is not a legitimate brand and people should contact Consumer Direct on

08454 04 05 06 if they see it for sale.

No duty has been paid on the bottles and it is illegal to sell it. Officers seized 16 x 70cl bottles priced at £7.99 each from a Scunthorpe shop following a tip-off from a member of the public. It is not yet known who is distributing or making the illegal vodka.

Bottles of Drop Vodka were seized in Potters Bar. Last month North Lincolnshire Council Trading Standards officers seized counterfeit bottles of Smirnoff vodka and Glen's vodka from a shop in Scunthorpe.

More shops in North Lincolnshire have been visited since then and no other counterfeit bottles have been found.

Cllr Nigel Sherwood, cabinet member for Highways and Neighbourhoods, said: "Anyone who has bought Drop Vodka or has seen it for sale should call Consumer Direct on 08454 04 05 06.

"This is an illegal drink being sold as a cheap brand with no duty paid.

"Bottles have been found to contain de-icer and the council is advising people not to drink it."



Fake vodka - not legitimate

National Fraud Initiative update

The council takes part in the National Fraud Initiative run by the Audit Commission each year. The initiative matches data supplied by the council against that supplied by other councils, the NHS, the Police, Fire Authority and other public bodies such as Housing Associations.

The aim of the exercise is to identify matches between the data supplied which could be errors or frauds.

The matches are investigated by the council and any cases of fraud are investigated and sums recovered. The council is currently looking at benefits, payroll and creditors matches and to date over £90,000 of error and fraud has been identified.

Every two years the council submits data from the electoral registration and council tax systems. Matches are returned when single residents discount is being claimed at an address but the

electoral register suggests that more than one adult lives at the address, or there is a young person approaching 18.

The last exercise resulted in savings of over £40,000 to the council, where Single Resident Discount was being incorrectly claimed, usually because council tax payers had failed to let the council know when their circumstances had changed.

The council tax team need to be made aware of changes such adults moving in or out of the house. They also need to be aware of young people turning 18 even if the person is still in long term education as a different discount is awarded in these cases.

If your circumstances have changed recently, please contact the council tax team as soon as possible, as the next matching exercise starts shortly.

Police fraud contact



Scunthorpe
Police - officer
nominated

Scunthorpe Police CID have a nominated officer to supervise all fraud investigations for the North Lincolnshire area. In this role there is a formal relationship with the council's Audit Department with whom the police will work to investigate internal offences of fraud uncovered by their audit work.

Referrals have already been made to the police. In every case sanctioned action has been taken against the suspects.

There are two messages to reiterate: firstly, be vigilant and report suspicions. Secondly, we should all be mindful of our actions, ensuring that everything is recorded and authorised.

Our police liaison officer said "I'd like to update you on current frauds to raise awareness and prevent you from becoming the next victim. The first is probably the most simple: the 'Advanced Fee Fraud'. The most simple is via

a newspaper advert saying send £19.99 to a specific address to receive a colour TV or similar by return. Of course, no goods are returned. Most people just put the loss down to experience but if the advert generates 5,000 replies, simple maths shows that it is an easy, profitable fraud and not a civil dispute!

"Another example is lottery fraud. A letter is sent saying you have won \$1,000,000 in a foreign lottery. To claim the prize you must ring a number. You are then asked to pay several thousand pounds in export tax to release the money. The victim pays the tax but no \$1,000,000 is sent. In extreme cases the individual is told to send a second payment for government tax. Once again, the prize never appears.

"Simply remember: 'If it looks too good to be true, it probably is', and 'There is no such thing as a free lunch'."

Bribery Act update

In our last edition we set out the council response to the Bribery Act, specifically policies and procedures which expect all staff to refuse offers of gifts or hospitality, but any received are duly recorded.

Since then, we have prepared an eLearning package on the new Act, reminding staff of the processes. All staff with email access were expected to have read the training before the end of September. Managers with staff with no access to email are expected to have cascaded the training down to these staff. There has been a good response and reminders have been sent out to those who did not complete the eLearning package in time.

Details of our anti bribery policies are also in Appendix 7 of the Counter Fraud Strategy – on both Intralinc and the website.

Benefit fraud penalties

The council has always taken benefit fraud seriously. Together with partners at the DWP, it investigates allegations to stop false claims, recover wrongly claimed benefit and taking further action against those who wrongly claim benefit. Another deterrent to such offences is the Loss of Benefit Provisions, more commonly known as "One Strike" and "Two Strikes".

Under 'One Strike', someone who commits benefit fraud and is prosecuted, receives an Administrative Penalty (a fine) or a formal caution. They also face having benefit reduced or withdrawn for four weeks if they are still in receipt of benefit. If they are no longer claiming but reapply within a specified period the new benefit will be reduced. Already in 2011, 30 "loss of benefit" penalty interviews have been conducted.

'Two Strikes' applies to people prosecuted at court. If a person is successfully prosecuted twice within five years, as well as the court sentence, they face having benefit stopped for 13 weeks. Already in 2011 there had been two cases with a second successful prosecution within five years. Both cases were joint investigations with DWP, one case prosecuted by the council's solicitors and the second by the DWP's solicitors. In both, the defendants face a potential 13 weeks' loss of benefit.

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