

**BRISTOL CITY COUNCIL
Audit Committee
18th January 2013**

Report of: Strategic Director (Corporate Services)

Report Title: Fraud Update

Ward: Citywide

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RECOMMENDATION

The Committee note the content of this report as a source of assurance regarding the counter-fraud work being undertaken by the Council and the continued value of this work.

Members review and endorse the fraud risk assessment undertaken by Internal Audit.

Members endorse or comment upon the Internal Audit Investigation protocol developed to address previous concerns in this area.

SUMMARY

The report details both proactive and reactive work on fraud and details areas where the Council has been affected by Fraud. The report will also be considered by the Executive Member.

The significant issues in the report are:

- a fraud risk assessment for the Council - (paragraph 2)
- an Internal Audit Investigation Protocol (paragraph 3 and appendix 1)
- Fraud experienced by the Council in the last twelve months (paragraph 4 and appendix 2)
- The Audit Commission's checklist for those responsible for Governance (Appendix 3)
- A summary of the estimated financial value to the Council of the proactive and responsive fraud work undertaken. (Paragraph 7.2)

Policy

This report is submitted in accordance with the Audit Committee's Terms of Reference and Internal Audit's Charter and Strategy.

Consultation:

Internal: None necessary

External: None necessary

1. Introduction and Context

- 1.1 The Council, with full support from the Strategic Leadership Team and Members, take the matter of fraud seriously. The Council's proactive approach to tackling fraud in some higher risk areas is nationally recognised and where fraud is identified, thorough investigations are carried out to pursue fraudsters.
- 1.2 The purpose of this report is to advise the Committee on how the Council has been affected by fraud in the last year and to provide assurance on the effectiveness of the counter fraud work completed across the Council.
- 1.3 In the Fraud Update Report in February 2012, the Committee were advised that the threat of fraud against local authorities is increasing:
- incentive and pressure to commit fraud is increased in times of recession as the threat to individuals livelihoods and prosperity increases
 - the opportunity to commit fraud is likely to increase as structural and operational changes to deliver required savings in public spending are likely to result in the weakening of internal control systems aimed at preventing fraud and corruption
 - new fraud risks are emerging as services are delivered in different ways with an increase in commissioning of services and services being delivered by third parties and the voluntary sector
 - the changing regulatory landscape around public sector fraud threatens to undermine progress in recent years made as the future of key pieces of work such as the National Fraud Initiative remains to be determined following the abolition of the Audit Commission
- 1.4 In April 2012, the National Fraud Authority (NFA) formally released Fighting Fraud Locally - the National Local Government Fraud Strategy and called for Local Authorities to review their anti-fraud arrangements and align them to the best practice included in the national strategy in three key areas:
- acknowledging and understanding the wide range of fraud and corruption risks the Council faces and measuring the cost of fraud to the Council;
 - investing an adequate resource to fraud prevention and detection and working collaboratively with others in doing so;
 - pursuing and punishing fraudsters to underpin a culture where fraud is not tolerated.
- 1.5 At their meeting in February 2012, the Committee acknowledged the need for a new approach to tackling fraud and endorsed a 2 year strategy and policy aimed to achieve the above and strengthen the Council's overall resilience to

fraud. This report highlights some key pieces of work included in that strategy.

- 1.6 The National Fraud Authority (NFA) Annual Fraud Indicator for 2012 identified their estimated annual fraud loss in the UK public sector as £20.3bn. Of this some £2.2bn (excluding benefit fraud) represents fraud against Local Government.
- 1.7 The Audit Commission's Report, Protecting the Public Purse 2012, issued in November 2012, sets out their most recent findings resulting from annual fraud survey for 2011/12 and the findings of the most recent National Fraud Initiative (NFI) Data Matching exercise. The Commission acknowledge that local government bodies are doing good work to target anti-fraud resources more efficiently and effectively. Their report concludes that local government bodies should improve their use of data, information and intelligence to focus their counter fraud work where it will have most impact and acknowledges that both nationally and locally, the contribution of a dedicated counter-fraud resource with appropriately skilled staff is key in effectively tackling fraud.
- 1.8 The report highlights areas where high levels of fraud have been identified in their survey. These include:
 - Housing Tenancy
 - Council Tax Discount
 - Procurement
 - Housing and Council Tax Benefit
 - Internal Fraud
- 1.9 Protecting the Public Purse 2012 identifies the following emerging fraud types:
 - Business Rate fraud
 - Right to Buy fraud
 - Social Fund and Local Welfare assistance fraud
 - Local Council Tax support
 - Fraud against schools
 - Grants

2. Fraud Risk Assessment

- 2.1 One of the key strands that underpin the messages nationally is that authorities need to show a greater understanding and awareness of it's fraud risks and target its limited resources to the areas of highest risk. As such, Internal Audit has compiled a Fraud Risk Assessment to both acknowledge the highest fraud risks, demonstrate how effectively these are currently managed and hence be more aware of it's exposure to the risk of fraud and further actions required.
- 2.2 In drafting the Fraud Risk Assessment, account was taken of local knowledge of the Council's main key areas combined with fraud risks identified by the National Fraud Authority (NFA) and the key fraud risks for local government listed in Protecting the Public Purse. The Audit Commission Predictor Tool was also used as an indicator to determine the key fraud risk areas included in the Fraud Risk Assessment.

2.3 In Internal Audit's view, endorsed by the Strategic Leadership Team, the highest fraud risks for the Council are identified as:

- Procurement
- Tenancy
- Local Taxation
- Payroll
- Housing and Council Tax Benefit
- Direct Payments
- Treasury Management (inherently high but residually low risk)

2.4 As well as these, other areas of current fraud risk have been identified although these are not felt as high a risk as the areas above. Additionally, areas of emerging key risk for the Council are included and once arrangements have been determined for delivery of services in these areas, Internal Audit will need to work with Directorate staff to ensure the fraud risks are fully understood and mitigated as far as possible. The two highest risk emerging areas for early attention include:

- Business rate fraud
- Local council tax support

2.5 The Committee has previously raised the issue regarding valuing the deterrent effect of good fraud prevention arrangements. The fraud risk assessment includes a financial and where possible a fraud loss profile which indicates the estimated loss to the Council should no barriers to fraud be in place. The following is a summary of the fraud loss profile that has been provided by the Audit Commission:

Audit Commission Predictor Tool			
Risk Area	Minimum Potential Fraud Risk to BCC £m	Maximum Potential Fraud Risk to BCC £m	Annual Debit £m
Procurement	5.4	9.11	400
Tenancy	3.8	6.4	804
Local Taxation	1.1	1.9	175
Payroll	0.6	1.0	247

2.6 The Committee has been provided with regular information regarding the Councils' approach to both tenancy and local taxation fraud in response to the fraud risks faced in these areas and will have seen examples of good proactive fraud work in these areas. Work has commenced and will continue in the 4th quarter to assess the authorities exposure to payroll fraud.

2.7 However, the Fraud Risk Assessment has shown that there is considerable potential for improvement in the control framework for procurement. This is considered to be the biggest issue for the Council in relation to fraud and

more work will to be undertaken in partnership with the procurement professionals in order that this risk is mitigated and subject to detailed testing.

- 2.8 Going forward resources will be allocated to focus on the higher risk areas identified in the Fraud Risk Assessment whilst also developing work in the emerging fraud risk areas. In the current financial environment it is considered essential to raise the profile and awareness of fraud by nominating an officer as the Council's fraud champion supported by 'champions' in the highest fraud risk areas. During the course of the year there will be continuous progress against items identified in the action plan that was put before the Committee in February 2012.
- 2.9 The Fraud Risk Register identifies the actions that are necessary to mitigate the fraud risk and Internal Audit will be pro-active and work with management on all high value areas to improve the control environment. For the lower risk areas Service Managers will be encouraged to own the risk through fraud training. The completion of the Fraud Risk Assessment Workbook via on-line training will continue to be rolled out across the Council.
- 2.10 The Committee are invited to comment on the Fraud Risk Assessment completed by Internal Audit as a fair reflection of the key fraud risk areas which should be targeted with its limited resources.

3. Internal Audit Investigation Protocol

- 3.1 Internal Audit's approach to fraud investigation has received criticism which primarily centre around the length of time investigations take, the associated cost/resource input and the timeliness of reporting results.
- 3.2 The Internal Audit Section continues to experience difficulties in balancing the expectations of all relevant parties when completing their work in these areas. The number of investigations referred to the section continues to draw on the section's resources and as detailed earlier in this report, the Local Government Fraud Strategy has clear expectations that Local Authorities take the matter of fraud seriously, thoroughly investigating suspected fraud and strongly pursuing any perpetrators of fraud. Whilst it is acknowledged that long and drawn out investigations are frustrating for all involved, the outcome from these investigations affect people's lives and as such our work must be thorough and conclude accurately.
- 3.3 The approach to investigations is being considered as part of the Internal Audit service review and an investigation protocol has been drafted to formalise and develop the approach that will be taken. (Appendix 1).
- 3.4 The aims of the protocol are to ensure that:
- investigations are conducted in a timely and cost effective manner
 - investigations follow a clear, consistent and co-ordinated approach
 - communication of progress is improved
 - decisions made during the investigation are made at the right level.
- 3.5 The protocol strengthens the corporate support for Internal Audit in these

matters by involving other key officers at key stages of the investigation:

- s 151 Officer - in respect of ratifying the requirement for an investigation and who is best placed/resourced to undertake the investigation as well as more frequent progress reports to him where full investigations are required.
- Directorate management - as detailed in the Anti-fraud, Bribery and Corruption Policy, given the reducing resources within Internal Audit, lower level, more simple fraud cases may in future be investigated by staff /management within the Directorate concerned.
- the Monitoring Officer - in respect of whether and at what point the police are involved.

3.6 'The Committee are asked to comment on the draft protocol as an improvement to the investigation process and to acknowledge the on-going development work to improve the protocol and investigation process'.

4. Fraud Experienced by the Council

4.1 Details of investigations that Internal Audit have been involved in investigating over the last 12 months are included in Appendix 2. Some recent benchmarking against other unitary authorities indicates that Bristol Internal Audit completes significantly more re-active fraud investigations than others and completes these in less than average time. It is also evident that Internal Audit are above average in their pro-active audit work recognising the need for fraud prevention as an important tool in the fight against fraud.

4.2 In addition, the Committee have received separate reports (either at this meeting or the last meeting) regarding the level of Housing Benefit and Tenancy fraud identified.

Council Tax Fraud

4.3 The Committee have received regular updates in respect of Council Tax Single Person Discount (SPD) fraud which has and continues to develop. Since 2006, either by internal data-matching or via the National Fraud Initiative (NFI), fraudulently claimed SPD have been withdrawn to the sum of £2.64m.

4.4 Given the success of this work, further investment (£136,000 over 5 years) was made in 2010, to extend the work to identify fraudulent claims for SPDs using credit reference agency checking. To date this work has resulted in the withdrawal of a further £1.72m of SPDs. The second phase of this 5 year contract, year 3, has now started and the results will be available by the end of the current financial year.

4.5 The Committee has been made aware of previous work on Student Exemptions that identified £1.9m of fraudulent claims. A similar exercise was commenced in October 2012 the results of which are expected early in the financial year 2013/14.

Personalised Budgets:

- 4.6 Nationally, it was estimated that the number of people receiving personal budgets in 2011/12 was in excess of 430,000, a rise of 38% on the previous year. In that period the number of personal budgets paid to carers rose by 15% to nearly 52,000 and the total spend on personal budgets rose by 57% to over £17.5 billion. Since 2008, a key national target has been to increase the number of people accessing a personal budget or direct payment to exercise greater choice and control over their social care services and the Council pays circa £8m in direct payments to around 780 service users. Concerns have been raised about the risk of fraud and abuse and the Council, as it reviews its social care services, will seek to ensure that robust and proportionate mechanisms are in place to identify risk and mitigate against those risks.
- 4.7 Internal Audit have been investigating a high value direct payment case following concerns raised by the Department for Work and Pensions in respect of a service users eligibility for support. As a result, Direct Payments to the value of approximately £51,000 per annum have been suspended and the Police are looking to prosecute the service user. The Council will be submitting a compensation order for approximately £183,000 in respect of falsified claims for support.
- 4.8 A follow up review of a further high value direct payment has been undertaken and arrangements are in place to claw-back funding held in excess of the agreed contingency, currently eight weeks gross direct payment. Additionally, a case was referred via the fraud hot-line and this is also under investigation.

Procurement Fraud

- 4.9 The NFA estimates that councils lose about £890 million each year through procurement fraud. This is the second highest loss to fraud in Local Government. Individually and in total, procurement fraud can involve significant financial loss. In 2011/12 local government bodies reported that frauds to the value of £8.1m had been detected with an average £43,300 per case.
- 4.10 Although fraud can occur at any point in procurement and contracting it has been recommended that, due to difficulties in obtaining convictions and recovering losses, emphasis should be placed on controls and procedures to prevent fraud and designing opportunities to commit fraud out of the system.
- 4.11 E learning developed to raise awareness around fraud issues across the Council included references to procurement fraud and this has been completed by several key officers in procurement. Work is currently being undertaken to produce some targeted procurement fraud awareness training. In addition, the South West Fraud Group are developing a procurement fraud program and South West Chief Internal Auditors group are considering the merits of sharing the investment in procuring some contract audit training courses considering the risk and prevention of procurement fraud.
- 4.12 The table at appendix 3 demonstrates that the level of procurement fraud

investigated by Internal Audit is concerning. One employee has recently been dismissed following a long, complex and successful investigation by Internal Audit into their procurement activity.

Abuse of position of trust

- 4.13 A fraud was committed by a member of staff working within H&SC , Independent Living Service. There were significant failings in the management review procedures and the individual purchased items for personal gain using Council funds. The officer was given a custodial sentence of 20 months imprisonment and a Compensation Order was applied for and awarded in the sum of £108k. Inherent sound control mechanisms are now in place that will mitigate the risk of a recurrence.

Payment Redirection Fraud:

- 4.14 Fraudsters have targeted Councils, including Bristol, using the expenditure information that must now be published under the transparency agenda. Fraudsters use information from creditors web sites in attempts to redirect payments by councils intended for legitimate creditors.
- 4.15 The Council has not so far fallen victim to this fraud. Shared Transactional Services (STS) staff are alert to the threat and have improved controls around amendments to bank accounts to prevent it. The National Anti-fraud Network (NAFN) issue alerts to raise awareness regarding creditors and councils targeted to enable councils to respond quickly to attempted attacks of this nature.

Credit Card Fraud

- 4.16 The Committee have previously been advised of the credit card frauds against the Council. These cases have now appeared at the Crown Court with the perpetrators receiving suspended custodial sentences in addition to community service orders. The use of fraudulent credit cards for payments made via the internet continues to be problematic.

5. National Fraud Initiative 2010/11

- 5.1 The Council has again taken part in the Audit Commission's National Fraud Initiative (NFI) as part of the statutory External Audit requirements. The NFI brings together data from across the public sector to detect 'matches' ie anomalies in data which may or may not be indicative of fraud, for further investigation. The Committee received a progress report concerning the outcomes of this exercise for the City Council in February 2012. Work has continued and the exercise is now substantially complete. The results are detailed below:
- 5.2 The Council received 24,106 matches in total. Investigation of them has resulted in:
- £199,254 of Housing Benefit overpayments being identified

- 4 council properties being recovered. The Audit Commission value the recovery of a property to the Council at £75,000 each a total therefore of £300,000.
- £740,000 of claims for local taxation discounts have been withdrawn by Local Taxation following further matching with the Electoral Register. This is in addition to the work detailed paragraphs 4.3 - 4.5 above.
- 1 employee being dismissed as they were unable to confirm their entitlement to work in the UK. By identifying and dealing with this issue the Council has avoided a £10,000 fine from the UKBA.
- 2 employees being issued a written warning for working elsewhere whilst reporting sick to the Council. In both cases, the employees GP's confirmed that the employees were fit for the other employment but not the Council's. Warnings were issued for failing to follow procedure in such circumstances.
- 178 blue badges being cancelled following comparison of our data to deceased person data. (nb refers to badge cancellations and not the number of blue badges identified as being misused). The Audit Commission apply a notional saving of £500 per cancelled badge valuing this work at £89,000.
- Duplicate Creditor payments were identified to the value of circa £8,600. Matches resulting from the exercise and additional work completed by Internal Audit identified a further £25,000 of duplicates.

5.3 Concessionary travel passes were matched to the deceased persons output and this resulted in 1722 passes being cancelled with a value of £86,100. The benefits of this will be increased with a move to the national database for concessionary travel and introduction of electronic 'scanning' of travel passes at the point of use.

5.4 The Audit Commission again ran the operation Amberhill data against our systems to identify cases where the Council had been targeted by identity fraud. One such case was identified resulting in housing benefit being stopped.

5.5 The Audit Commission piloted a data-match of our data to a database of 'virtual addresses' collated by the Serious Organised Crime Agency. Whilst 8 matches were received and reviewed, no fraud was identified.

5.6 The Council's results to date have been benchmarked with results achieved by councils across the South West (via the South West Fraud Group). Bristol's results compare well to others in this group.

5.7 The NFI 2012/13 is now underway and relevant data has been uploaded to the Audit Commission's web tool for a new round of data matching. The output from this matching is due to be received in January 2013. The Committee will be kept up to date with progress and results from this work.

6. Internal Audit - Other Proactive Fraud Work

6.1 As well as investigation of cases and completion of proactive fraud testing work, Internal Audit has worked in the following areas to improve counter-fraud arrangements generally:

Review of Anti-fraud Governance Arrangements

6.2 The Audit Commission's "Protecting the Public Purse 2012" provides a checklist for those responsible for governance to consider the robustness of the Council's anti-fraud arrangements and this is attached at Appendix 3. This checklist has been enhanced by the inclusion of items from the Fighting Fraud Locally best practice checklist. This will provide a greater measurement for the Council when assessing the effectiveness of its counter fraud culture.

6.3 A review of the checklists has highlighted a number of areas where practices need to be enhanced to ensure the effectiveness of the Council's counter fraud culture as follows:

- a clear need to reflect on the adequacy of the level and qualifications of counter-fraud resource available and focus that resource at the highest fraud risk areas as detailed in this report.
- the need to focus some of the available resource, both within Internal Audit and across the organisation, to better mitigate the ongoing risk of procurement fraud.
- the need to work closely with business change professionals for early consideration of the control framework during change to ensure new policies, strategies and initiatives are fraud proof.
- the need to review the Whistleblowing Policy, specifically regarding how external contractors are covered and progress reporting back to the Whistleblower has brought with it complications.
- the need for an early audit review following recent changes to the Members Code of Conduct.
- the need to introduce a programme to publicise all fraud cases within the Council.

Fraud Awareness

6.4 There has been a continued effort to target pro-active fraud work in the high risk areas with a view to generate good returns for the resource invested. The following work has been undertaken with a view to developing a stronger anti-fraud culture throughout the Council.

- the audit web pages have been re-structured to clarify the Council's approach to fraud and to signpost the E Learning courses at the Learning Pool for both fraud awareness and the Bribery Act. The large majority of officers have now completed the fraud awareness course whilst only a minority have accessed the Bribery Act partly due to the later launch of the latter.

- The NFA recently issued a Fraud Awareness Disc for use by all Local Authorities to raise awareness of the messages in Fight Fraud Locally. Consideration is currently being given as to how this can be used to supplement existing fraud awareness training.
- 6.5 The revised [Anti fraud bribery and corruption strategy and policy](#) is prominently displayed on the new Fraud web pages, together with accessible text options where appropriate. The policy makes specific reference to the anti fraud work being pioneered by the National Fraud Authority, and provides simple straightforward advice about what to do if a fraud is suspected. The policy was reviewed and approved by the Audit Committee in January 2012, and will be reported again in January 2014 as part of a 2 year cycle of review.
- 6.6 Fraud warning bulletins are received periodically from the National Anti Fraud Network (NAFN) and Internal Audit refer relevant contents to specific officers as well as posting the whole bulletin as a regular feature on the Fraud web pages. In addition, Internal Audit compiles and circulates its own Fraud Bulletin intended for officers working in areas particularly vulnerable to potential fraud.
- 6.7 There have been continued efforts throughout the year to protect against scam invoicing for non-existent or unsolicited goods. Schools and community based projects are particularly targeted through unscrupulous and opportunist marketing. The most effective defence employed by Internal Audit continues to be fraud warnings posted both on the Fraud web pages and on the invoice payments system to urge caution when dealing with specifically identified potential creditors. The most common instances encountered currently include advertisements for dubious publications, and advance payments solicited for non-existent or sub-standard conference/training facilities. Trading Standards and the Police have been notified as appropriate on each occasion.

Fraud Hotline

- 6.8 Internal Audit continue to maintain a 24 hour fraud hot-line. From April to date, there have been 12 allegations, other than housing tenancy fraud, as follows:

Fraud Area	No	Action
Housing Benefit	2	Referred to Benefit Fraud Teams
Tax Evasion	2	Referred to HMRC and Local Taxation.
Local Taxation SPD	3	Two referred to Local Taxation one resolved internally by Audit.
Anti-social behaviour	3	Contact details given to ASB team.
Procurement	1	Referred to Area Environmental Officer
General	1	Resolved within Internal Audit

Money Laundering

- 6.10 The Chief Internal Auditor remains the reporting officer for money laundering. To date in the current financial year there have been no Suspicious Activity Reports (SAR's).

7. Summary and Conclusion

- 7.1 Extensive proactive and reactive fraud work has been completed across the Council which demonstrates the Council's commitment to preventing and identifying fraud. To date, the work has contributed to the identification of significant financial benefits to the Council and as such it is planned to continue the increased focus on proactive fraud work.

- 7.2 The table below summarises the financial benefits to the authority as a result of both pro-active and re-active fraud work undertaken by the Audit team as detailed in this report:

Table of Financial Benefits	
Type of Fraud	Benefit obtained in £000's
Abuse of Trust - Recovery	108*
Direct Payments - Compensation Order	183*
NFI	
Single Occupier Discount	740*
Housing Benefit	199*
Tenancy	300
Work Entitlement	10
Blue Badge	89
Duplicate Payments	34*
Concessionary fares	86
Total Financial benefit	£1.7m

*recoverable amounts.

- 7.3 In addition to the above there is currently work being undertaken on Single Occupier Discounts and Student Exemptions which should also result in considerable benefit to the Council. Further updates on this will be provided to the Committee as they become available.

Other Options Considered

None necessary

8 Risk Assessment

8.1 Failure to be alert to the risks identified in this report and respond to the recommendations in national reports could result in weaknesses in the counter-fraud arrangements and in turn increase the risk of fraud being committed against the Council. Standards for the prevention of fraud need to be maintained and addressed at the same time as organisational and procedural changes are made to balance the fraud risk against those of the intended benefits of the changes.

9. Equalities Impact Assessment

9.1 None necessary for this report specifically however a stage one impact assessment has been completed for the work on tenancy fraud.

10. Legal and Resource Implications

10.1 Legal - none sought

10.2 Resource implications - none arising from this report

Exempt Appendices

Exempt Paragraph 7 - these appendices contain information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

Appendix 1 Investigation Protocol

Appendix 2 Summary of Fraud Investigated by Internal Audit

Appendix 3 Checklist for those responsible for governance

LOCAL GOVERNMENT ACCESS TO INFORMATION

Background Papers Audit Commission - Protecting the Public Purse 2012