

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	24 SEPTEMBER 2013
TITLE OF REPORT:	ANNUAL PREVENTION OF FRAUD AND CORRUPTION REPORT 2012-13
PURPOSE OF REPORT:	REVIEW ACTIVITY IN THIS AREA
REPORT BY:	HEAD OF SERVICE –AUDIT & ACTING FRAUD MANAGER
ACTION:	FOR INFORMATION

1. INTRODUCTION

The Council's policy on preventing Fraud and Corruption requires an annual review and report for the Audit Committee. This report covers activity in this area in 2012/13 and. The following areas are covered by the Council's Policy for the Prevention of Fraud and Corruption:

- **Fraud:** - "the intentional distortion of financial statements or other records by persons internal or external to the Authority which is carried out to conceal the misappropriation of assets or otherwise for gain".
- **Corruption:** - "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person."
- **Theft :**
- **Failure to disclose** an interest: whether or not financial benefit is involved.

The key principles of the policy in relation to fraud and corruption are:-

- Reducing opportunities;
- Prevention;
- Deterrence ;
- Detection and Investigation;
- Prosecution and Recovery.

Underpinned by:-

- Culture and Awareness.

2. REDUCING OPPORTUNITIES AND PREVENTION

The main aim of the policy is to prevent fraud, corruption or theft occurring in the first place. This is done largely by the routine operations of financial controls, including internal check and separation of duties. It is impossible to report systematically on prevention as there are no statistics on what did not happen. However, Members are provided with assurance on the effectiveness of internal control systems by both Internal and External Audit and by other third party assurance opinions. Internal Audit reports to each Audit Committee on progress including an ongoing assessment of the internal control system from reviews undertaken during the period. An opinion

on the framework of internal control is given annually as part of the Annual Governance Statement.

Examples of ongoing routine operations to prevent fraud and corruption include:

- (i) Proactive work in relation to production and monitoring of reports on duplicate payments and reviews including reconciliation of establishment reports to payroll are used to identify irregularities which are then followed up. Such work supplements the internal control system and acts as a substantive control over relevant activities.
- (ii) Robust insurance claims handling procedures including forwarding claims promptly to our insurance company for investigation as necessary and dealing promptly in settling substantiated claims but repudiating the remainder, provide some protection to the Council from any fraudulent claims.
- (iii) The routine collection and banking of cash presents an inherent risk in terms of temptation to “teem and lade” which can lead ultimately to theft. By monitoring the pattern of bankings we aim to correct the position before any losses occur: Identification of late bankings may come through the Income Team or through management review of budget income headings or as part of a third party assurance review. Follow up after identification with the staff involved helps to prevent and detect theft. Such instances were identified in the period covered by this report and were the subject of investigation and report by Internal Audit.

3. DETECTION, INVESTIGATION, PROSECUTION

Suspensions of actual theft or fraud may come from a number of sources. Suspensions may be identified by the authority's staff by routine administration, they may be the subject of internal / external 'whistleblowing' such as the Benefit Fraud hotline, they may be identified by the Council's review and compliance staff or they may be referred by other agencies or the public.

Whatever the suspicion, investigations need to be proportionate, confidential and fair. Some suspicions or allegations turn out to be malicious or simply mistaken; the presumption of innocence is important and not all investigations result in a conclusion of wrongdoing.

A major factor in the determination of a referral and successful investigation is the quality of the information provided. Where anonymous referrals including allegations are made with no supporting evidence the chances of a successful investigation are clearly greatly reduced. Such referrals in the end are counter productive in as much as they divert the Council's scarce investigative resources.

Benefit Fraud Cases- This is borne out by the fact that in 2012/13 there were 616 referrals of possible Benefit fraud relating to Housing / Council Tax benefit and 532 cases which were considered as suitable for investigation. Of the 532 cases 39 resulted in some form of formal sanction. A total of £236,555 worth of overpaid benefit was identified as 'fraud and error' by the Counter Fraud section during the year 2012/13.

In October/November 2012 the benefit section identified a significant amount of cases which had not been reviewed over a length of time, these included standard cases where Housing Benefit was paid on the basis that the claimant or partner was in employment and had declared their income when the claim was initially made. It was identified on some of these cases that there had been an increase in the employment income and that this had not been declared. This has resulted in a large

amount of referrals received towards the end of the year, 183 referrals were received in January 2013 alone.

Established prosecution policies in the case of Benefit fraud include a range of sanctions which allow a proportionate response. At the lower end of the scale, a caution or administrative penalty is often sufficient to underline the severity of the fraud and deter repetition. The authority is not reluctant to prosecute fraudsters for the more serious cases. The table below shows the type and number of sanctions issued in 2012 -13, compared over the last 3 years:

	Prosecution	Ad Pen	Caution	Overpaid Benefit identified
2012 -13	7	13	19	£236,555
2011-12	10	6	26	£344 303
2010-11	8	5	23	£165 023

The Authority also considers cases to be of a positive outcome if, from the actions of the investigation team, an overpayment of benefit has been identified and passed for recovery, the amount of overpaid benefit identified in the last 12 months has remained at a significant level.

A breakdown of the source of Benefit referrals in the last three years is detailed in the following table:

	2012/13	2011/12	2010/11
Source	Cases	Cases	Cases
Visiting Officers	1	6	9
Housing Benefit Staff	12	6	2
Council Tax/Recovery	0	0	2
Anonymous	4	4	1
DWP	5	6	3
HBMS	16	14	14
NFI	0	3	4
Other	1	3	1

Other Fraud Cases- In addition to the investigation of Benefit related referrals there were eleven investigations relating to allegations of fraud or other wrong doing reported to Internal Audit. The investigation of these allegations, found evidence of weak internal control in some instances and found positive evidence of irregularity and / or fraud taking place in two of the investigations commenced in the period.

An internal Audit investigation found evidence that cash income had been systematically banked late. On a site visit to investigate the employee was unable to produce monies that records showed had been collected but not yet banked. The employee concerned resigned following this site visit. The monies were subsequently banked and no actual loss of monies to the Council was identified and therefore no further action was taken.

Another Internal Audit investigation which took up considerable audit time into school meals and school fund cash income found evidence of fraud and resulted in a referral to the Police. Again the employee resigned at the beginning of our investigations. The Police are working on the referral but have yet to provide an update on their progress.

The details of investigative work provided above is evidence of the Council's commitment to investigate referrals and to take appropriate action where wrong doing and or fraud and corruption are identified.

4. NATIONAL FRAUD INITIATIVE (NFI)

The authority participates in the National Fraud Initiative which takes place every two years. The Initiative involves certain data within the authority being matched with other authorities in order to identify any irregularity that may be indicative of fraud. In deciding on the release of information for data matching it is necessary to consider whether individuals had fair notice of the intention to process their information in accordance with data protection principles.

Participation in NFI is a proactive method of identifying possible fraud within the Council's systems and between Council systems. As with all referrals not all provide enough evidence of fraud to warrant investigation but where they do appropriate investigation and action is undertaken by the Council.

During the financial year the NFI 2012/13 Data Matching results were released.

Benefit Matches – The NFI has identified 788 cases of possible benefit fraud, however, it has been recommended by the NFI filtering system that only 88 of these cases are required to be investigated further and indicate a high possibility of fraud. Initial review has been undertaken on these cases and they fall under the category of Housing Benefit against Payroll and Pension payments, one case has already identified an overpayment of benefit in excess of £5,400, this was later identified as being because of an error made when the claim to benefit was calculated and the pension had been declared but missed.

Non Benefit Matches - The Internal Audit Service is responsible for sifting and risk assessing all non Benefit related NFI Data matches which for 2012-13 amounted to 3564 matches of which 1509 were recommended by NFI for investigation. Of these

- 1238 recommended matches related to deceased persons with Blue Badges or Concessionary bus passes. There is no evidence of badge or pass misuse from these matches.

We reviewed the procedures in place for notification of deceased persons to the Council which is through the 'Tell us Once' process. We have arranged for Traffic Wardens to be provided with lists of invalid Blue Badges to help identify and eliminate any potential misuse.

- 172 recommended matches related to duplicate data within the Council's Creditors system. There was a known issue with duplicated creditors in the Council's ResourceLink Creditors system which addressed when the data was cleansed before being input to the new CIVICA Creditor module. Given the number of the matches and the known reason behind many the Internal Audit Service concentrated on the matches of greatest perceived risk which were those relating to 'duplicate records by invoice number and amount but different Creditor reference and name.'
- 52 recommended matches relate to payroll to Creditors matches. This can be due to payments to employees for non employment related reasons i.e. election duties, Council Tax refunds etc.
- 7 other recommended matches related to 'Blue Badge Parking to Blue Badge 'Parking Permit' (1); 'Insurance Claimants to Insurance Claimants';' VAT Overpaid'. These matches were investigated and explanation obtained.

Internal Audit did not find any evidence of fraud or irregularity from our investigations into the recommended data matches.

The Authority remains committed to working jointly with other organisations, in particular the Fraud Investigation Service of the Department for Work and Pensions.

5. HOUSING BENEFIT DATA MATCHING

Housing Benefit Matching Service (HBMS) – the Authority is committed to investigating referrals that are generated through HBMS, these are cases where a discrepancy has been identified through matching the Housing and Council Tax Benefit data against DWP and HMRC data, this generates a referral that needs to be investigated and may result in a fraud case. In 2012/13 there were 16 cases sanctioned in some form following a match from HBMS.

6. NATIONAL FRAUD AUTHORITY (NFA)

In April 2011 the National Fraud Authority published the Fighting Fraud Locally Strategy. It is estimated that the cost of fraud to local government is £2.2 billion a year. This is money that could be used for local services. Fighting Fraud Locally is a strategic approach developed by local government, for local government, and addresses the need for greater prevention and smarter enforcement.

Fighting Fraud Locally outlines a strategic approach that, if adopted across local government, will not only enable local authorities to become better protected from fraud but also contribute to the nation's ability to detect and punish fraudsters. The new approach will strengthen the counter fraud response across local government and will result in more fraudsters being caught, more fraud prevented and more money returned to authorities.

The Authority is looking into setting up investigations into other types of fraud that affects the Council, this has included Blue Badge Parking fraud, Concessionary Travel (Bus pass) fraud and Council Tax single person discount fraud.

7. WELSH BENEFIT INVESTIGATION GROUP (WBIG) and LOCAL AUTHORITY INVESTIGATION OFFICERS GROUP (LAI OG)

These are groups that represent Local Authority investigators both Nationally (LAI OG) and in Wales. It provides a network for the investigators to meet and discuss common issues that affect Local Authority investigators and provides a recognised platform to discuss matters in the fraud arena as well as providing a platform to be able to give investigators a voice on how to combat fraud. During the last AGM, Andrew Williams, the Council's Fraud Manager stood down as the Chair of WBIG but remained on the exec as Treasurer, he was also elected as an Executive member of LAI OG.

8. RECOVERY

Where we are able to do so, we aim to recover the value of money stolen or defrauded from the authority. The total amount of overpaid Housing and Council Tax Benefit identified through fraud investigations for 2012/13 was £236,555. The amount of Administrative Penalties issued in the year was £3,629 in penalties on 13 cases, this is set at a rate of 30% of the overpaid benefit on the case. The authority takes every step to recover the amount of overpaid benefit identified.

9. DETERRENCE

There are a number of ways of deterring those that would commit fraud and corruption. For a fraud to take place requires an opportunity for the fraudster to obtain monies or other personal benefit from our systems. The first line of defence therefore is to have an adequate internal control system in place that does not provide such opportunities. A major part of the work of Internal Audit is to review systems of control, identify weaknesses and make recommendation to ensure that opportunities to commit fraud are minimised.

Another deterrent is to make it known that the Council is vigilant in relation to fraud and corruption and will ensure that once identified appropriate action is taken. Such deterrent is reinforced when people are made aware that the details that they provide are validated and checked not just within the Council but between public bodies.

The high profile reporting of the detection of cases and the prosecution of offenders is a good way of raising the profile of this work and deterring fraud. During 2012/13 the authority issued press releases on successful prosecutions which received a high profile in the local press. Such publication of prosecuted cases is regarded as a valuable publicity tool which generates further cases worthy of investigation and deters others who may be considering putting in fraudulent claims.

An example prosecution where an elderly lady in Llanfachraeth and her daughter were dishonest in not declaring their true income to the Council, both were working as a carer for an elderly lady in Nefyn and earning in excess of £600 a week on a rota basis. Appendix 1 refers to the case.

10. CULTURE AND AWARENESS

The publicity given to anti-fraud work and successful prosecutions also helps to promote an anti-fraud culture within the authority. A positive anti-fraud culture is part of good corporate governance.

In order to enhance awareness it is intended to provide a training session in 2012-13 based on countering fraud and corruption. The training session will be aimed at all staff but especially at those charged with implementing key internal controls within Council systems. The session will also be made available to the Audit Committee.

Housing and Council Tax Benefit staff were given an refresher session on the work that is carried out by the fraud team and what was expected from them. A guidance on making a fraud referral was issued to staff in order to get a better quality referral to investigate.

An annual self assessment workshop on Counter Fraud was introduced from 2012/13 designed to increase the awareness of Members in this area (please see below).

11. EMBEDDING COUNTER FRAUD AND CORRUPTION

The Audit Committee holds an annual Workshop at which self assessment of the effectiveness of the Audit Committee and self assessment of the Council's Counter Fraud Arrangements is undertaken by Members of the Committee assisted by officers.

For the last two years the Audit Committee has used the Chartered Institute of Public Finance and Accountancy's (CIPFA) "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" checklist to self-assess the Council's Counter Fraud arrangements. However, the latest sector guidance is to use the Audit Commissions Protecting the Public Purse 2012 – Fighting Fraud against Local Government checklist for those responsible for governance alongside the National Fraud Authority's Fighting Fraud Locally - Counter Fraud Checklist.

These checklists will be used to ascertain and record the arrangements in place and to identify gaps in the Council's Counter Fraud framework. The aim of this exercise is to further embed Counter Fraud activity and culture within the Council.

12. SINGLE FRAUD INVESTIGATION SERVICE (SFIS)

Since the Government's Welfare Reform programme were announced in 2010 there is still little known about the effect it will have on the way Local Authorities will be involved in benefit fraud. The government maintains that the Single Fraud Investigation Service will still come in to force from April 2013, however this did not happen. To date the Department for Work and Pensions have set up 4 Pilot sites to include different types of Local Authorities, these were selected at London Borough of Hillingdon, Glasgow City, Corby and Wrexham. The aim of these pilot sites is to evaluate and learn from best practice so that the final design for SFIS can be made. It is clear that this is to have an impact on Local Authority investigators, however it has been confirmed by the DWP's Fraud and Error programme that Local Authority investigators will remain employed by the Local Authority until 2015. The Authority remains committed to working jointly with the DWP until the new service is in place.

This has been highlighted nationally as the National Fraud Authority has highlighted other types of fraud that can occur within Local Authorities which would not be investigated by SFIS and consideration should be taken to the fact that Local Authorities may lose highly experienced investigators who have been trained to investigate and prosecute cases of fraud.

13. REVIEW OF POLICY

The authority's Policy for Counter Fraud and Corruption was last reviewed in 2012 and was adopted by the Council at its meeting held in December 2012. In addition to the Counter Fraud Policy a Fraud Response Plan was produced and published in 2012 and was presented to the December 2012 Council meeting. The Council also has Whistleblowing and Anti Money Laundering policies.

All of these policies can be accessed by employees and Members via the Councils intranet site Monitor.

The Council does not currently have a specific Anti Bribery Policy stating how the Council meets the requirements of the Bribery Act 2010. The Bribery Act 2010 makes it a crime for organisations to fail to prevent people associated with them from committing bribery on their behalf. Protection against 'failing to prevent' is based on being able to demonstrate that the organisation has 'adequate' anti-bribery 'procedures' in place.

A draft Anti Bribery Policy is being written and will be presented to the Executive for approval.

JOHN FIDOE
HEAD OF SERVICE – AUDIT

ANDREW WILLIAMS
ACTING FRAUD MANAGER

24 SEPTEMBER 2013

EXAMPLE PROSECUTION CASE

Case 1

Stephanie Anastassiou, 8, Minffordd, Llanfachraeth.

Facts of case, they are a mother and daughter prosecuted for Benefit Fraud:

Claimant appeared at Holyhead Magistrate court on 24/01/2013 charged with 2 offences of failing to notify a change in her circumstance to both the Isle of Anglesey county Council and the Department for Work and Pensions. She failed to report to the authorities that she was working as a live in carer for one week every month, earning £650 a month.

This resulted in her being overpaid

- £1 120.32 in Housing benefit, £176.64 in Council Tax Benefit; and
- £4 938.96 in Income Support over a period of 2 years.

The Court heard how she had initially claimed benefit legitimately after returning to live to the area, however, her circumstances changed soon after she claimed and she was given the opportunity to work as a live in carer for an elderly lady in the Gwynedd area, in her defence she stated that she had been given bad advice and had continued to claim these benefits, although she accepted that her actions had been dishonest. However, she had repaid the amount owed to the Council prior to the case going to court.

She was sentenced by the Magistrate to a 12 month Community Punishment Order which included 100 hours of unpaid work, she was ordered to pay £85 towards costs.

Case 2

Mrs June Robinson - 7, Minffordd, Llanfachraeth.

This case was linked to the case of her mother, Mrs June Robinson, who appeared at Holyhead Magistrate on 07/02/2013.

Pleading guilty to all four counts today at Holyhead Magistrates' Court the defendant was awarded six weeks imprisonment on each offence concurrent suspended for twelve months, and ordered to pay £270.00 investigative costs and £180 legal costs within 28 days.

A council spokesperson explained, "These were two cases that were brought to our attention following a telephone call received from the public. Had we not received this call the fraud would no doubt have continued for a much longer period and we are therefore grateful for the "tip off".

We would encourage anyone that suspects that someone is committing any type of fraud against the Council, in particular Benefit fraud, to call our fraud team who will look into the matter and take action against these fraudsters."

Please call on (01248) 751888 or e-mail: bfraud@anglesey.gov.uk