

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	10 DECEMBER 2014
TITLE OF REPORT:	ANNUAL PREVENTION OF FRAUD AND CORRUPTION REPORT 2013-14
PURPOSE OF REPORT:	REVIEW ACTIVITY IN THIS AREA
REPORT BY:	AUDIT MANAGER & COUNTER FRAUD OFFICER
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 2013/14 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- During 2013/2014 the Benefit Fraud team identified 41 cases that were suitable for consideration for some form of formal sanction. Of these case 14 proceeded to court and all but two were either found guilty or pleaded guilty to the charges laid against them. There were 22 formal cautions and 5 Administrative Penalties and the total fraudulent overpayment identified was calculated as being £227,716.51p.

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 2013/14, compared to those issued in the last three years:

	Prosecution		Ad Pen		Caution	Overpaid Benefit identified
2013 -14	14		5		22	£227,716
2012-13	7		13		19	£236,555
2011-12	10		6		26	£344,303

There were two notable cases taken to court where the fraudulent overpayment of benefit was substantial. The first case concerned a person who had claimed benefits over a period of nine years on the basis that he was either not fit to work or on a low income. Enquires made revealed that the claimant had declared his income to be only £50 per week whereas in reality it was excess of £300 per week, the claimant had submitted false wage receipts to back up his claim. When the declared work ended, the claimant claimed benefit on the basis that he was unfit to work, when in fact he continued to carry out heavy manual self-employment as a stone mason. When confronted with the facts during an interview, the claimant admitted that his claim for benefit had been false. As a result his claim to benefits was reassessed which resulted in a total overpayment of just under £100,000. As a result the case was taken to court where he pleaded guilty. The magistrates felt that due to the seriousness of the offence that their sentencing powers were insufficient and the matter was sent to the Crown Court where he received a 20 month custodial sentence, suspended for two years, in addition he received a 300 hrs community punishment order.

The second case involved a lady who had claimed benefits over a two and a half year period as a single mother, whereas in fact her husband, who was in full time, well paid employment, was living with her and their children. Though she denied the offence during interview, when she did appear before the magistrate's court she pleaded guilty and received a community punishment order. The overpayment of benefit in this case was nearly £20,500.

Other Fraud Cases- In addition to the investigation of Benefit related referrals there were a number of referrals made to Internal Audit in which allegations of fraud or other wrong doing were made. The investigation of these allegations, found evidence of weak internal control in some instances but did not find positive evidence of irregularity and / or fraud taking place in the majority of investigations commenced in the period.

There were two exceptions to the above concerning the identification of irregularity and / or fraud, one was a referral concerning the fraudulent request to change the bank details of an existing Creditor of the Council. This fraudulent request resulted in three payments being processed for payment to a bank account that did not belong to the Creditor concerned. The Police were informed of the fraud and informed us that it was part of a national fraud targeted at the public sector. The Police are still looking into this fraud at the time of writing of this report. The other incident was the reporting of the theft of diesel from the Gaerwen depot. This matter was referred to the police and steps were taken to strengthen the security of the depot and especially the diesel tanks themselves.

During 2013-14 Internal Audit was asked to assist Betsi Cadwaladr with an investigation which involved reviewing paperwork held by the Council. Members of the Internal Audit Team met with Betsi Cadwaladr to assist their investigation and also obtained documents from archive requested by the investigators.

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.

The last NFI data match was undertaken in 2012/13 with the next being scheduled for 2013/14. Therefore there was no NFI participation in 2013/14 to report.

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 2013/14 the Council continue to take an active part in the HBMS process with a number of positive results in terms of sanctions.

6. 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.

7. 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.

Training sessions on forged and counterfeit documentation identification have been held by Benefit Fraud for Benefit and Housing Service staff in 2013/14. Such training enhances staff awareness of the issues involved and allows them to prevent fraud by detection at an early stage prior to any benefit being paid.

Fraud awareness training provided was held in December 2013 by an external trainer for Housing, Benefits and Cash Office staff and covered general fraud awareness issues for local government.

8. 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 three years a workshop on Counter Fraud has been undertaken with Members of the Audit Committee. This year the workshop was held in January 2014 and considered the report on Counter Fraud arrangements produced by the Internal Audit Service which outlined the areas in which the arrangements were not considered to be meeting best practice. The Internal Audit report was based upon the Audit Commission's 'Protecting the Public Purse 2012 - Fighting Fraud against Local Government' checklist for those responsible for governance and the National Fraud Authority's Fighting Fraud Locally - Counter Fraud Checklist.

An action plan aimed at ensuring that the Council is aware of where the risk of fraud exists and ascertaining the current counter fraud arrangements in place in identified areas of high fraud risk was produced.

The overall aim of this work is to further embed Counter Fraud activity and culture within the Council.

9. SINGLE FRAUD INVESTIGATION SERVICE (SFIS)

During 2013/14 as part of the Government's Welfare Reform programme the DWP worked towards the creation of a Single Fraud Investigation Service. This culminated in the decision to go ahead with a Single Fraud Investigation Service which became effective from 01 November 2014.

There was no impact on the Council of this decision in 2013/14 but obviously the decision will impact on counter fraud arrangements and especially those relating to Housing Benefit fraud in 2014/15.

10. 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 Council's 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.

These policies are now in need of review and update as appropriate during 2014/15.

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