

BABERGH DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: M173
To: Overview and Scrutiny (Stewardship) Committee	Date of Meeting: 19 March 2013

MANAGING THE RISK OF FRAUD AND CORRUPTION – ANNUAL REPORT FOR 2012/13

1. Purpose of Report

- 1.1 This report explains the current arrangements in place within Babergh District Council to ensure there is a pro-active corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Audit Services to deter, prevent and detect fraud and corruption.
- 1.2 The report also includes the Corporate Counter Fraud Business Plan 2013/14 (Appendix A), which will reassure members of the three Local Authorities that robust processes exist to deal with any corrupt or fraudulent activity.

2. Recommendations

- 2.1 That the progress made in ensuring there are effective arrangements and measures in place across the Council to minimise the risk of fraud and corruption be noted.
- 2.2 That the contents of the Corporate Counter Fraud Business Plan 2013/14 as set out in Appendix A be noted.

The Committee is able to resolve these matters.

3. Financial Implications

- 3.1 Whilst there are no direct implications arising from this report there are potential resource implications concerning anti-fraud and corruption issues. Any implications arising from the need to introduce additional controls and mitigations will be discussed with management. The emphasis at all times will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

4. Risk Management

4.1 The key risk is set out below:

Risk Description	Probability	Impact	Mitigation Measures
If robust anti-fraud and corruption arrangements are not in place this could affect the achievement of the Council's strategic aims and priorities, key projects, the delivery of services and its reputation.	Unlikely	Bad	<p>The risk of fraud and corruption in relation to Council activities is taken into consideration both as part of the Council's general approach to risk management and also in the development of the Internal Audit Plan from year to year.</p> <p>In practice, the Council's mitigating controls include clear policies and procedures available to all employees and Members; Audit Services who investigate potential areas of fraud or corruption; the bi-annual participation in the National Fraud Initiative; and a sound internal control environment - as demonstrated by internal and external audit opinions and the Annual Governance Statement.</p> <p>Under the new staffing structure the responsibility for the development and maintenance of the Anti-Fraud and Corruption Policy now rests with the Corporate Manager – Internal Audit. Senior management of the Council are responsible for ensuring that this policy is implemented within the work areas under their control.</p>

5. Consultations

5.1 None

6. Equality Analysis

6.1 There are no equalities implications arising from this report.

7. Shared Service/Partnership Implications

7.1 Babergh and Mid Suffolk officers are working towards aligning relevant policies and procedures to provide a clear corporate framework to counter fraudulent and corrupt activity.

8. Key Information

Introduction

- 8.1 This report provides a clear basis for raising awareness by setting out information that will be communicated to Members, staff and other stakeholders of the work the Council undertakes to manage the risk of fraud and corruption. It brings together in one document a summary of the outcomes of our work to deter, prevent and detect fraud and corruption over the last 12 months.
- 8.2 Although the Council has traditionally encountered low levels of fraud, corruption and theft, the risk of such losses both internally and externally is fully recognised as a part of the Council's operations that needs to be managed pro-actively and effectively.
- 8.3 The Council's expectation of propriety and accountability is that Members and employees, at all levels, will lead by example in ensuring adherence to legal requirements, policies, procedures and practices.
- 8.4 The Council also expects that individuals and organisations (e.g. suppliers, contractors, partners, service providers) with whom they come into contact will act towards the Council with integrity and without thought or actions involving fraud and corruption.

Key issues and drivers

- 8.5 Greater focus is now being placed on local government to help understand the changing fraud landscape and identification of fraud risks. In the current economic climate there is a perceived increased risk of fraud due to a tightening of available credit and borrowing. This is certainly true in local government, where budgetary pressures, large spending cuts and difficult decisions over priorities may weaken controls and increase the likelihood of fraud.
- 8.6 Radical changes are underway as to how local services are to be delivered. The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More arm's length delivery of services by third parties in the voluntary and not for profit sector will mean that more public money is entrusted to a greater number of people, whilst the controls the local authority previously exercised are removed or reduced. Without new safeguards, preventing, detecting and investigating fraud will become more difficult.
- 8.7 All of these changes are happening against a backdrop of depressed economic activity in which the general fraud risk tends to increase. Harder times tend to lead to an increased motivation to defraud by some clients, suppliers and employees who are feeling the squeeze.

Raising Awareness

- 8.8 Work continues on raising fraud awareness across the Council and last year, the following has been done:
 - A 'Fraud Awareness' guide issued to all Corporate Managers. The purpose of this guide is to outline the Council's commitment to the protection of public funds and the necessity for harnessing resources in order to minimise losses from fraudulent conduct. The guide concentrates on:

- The identification of the types of fraud;
 - How fraud occurs;
 - Examples of behaviour that might indicate fraud;
 - Indicators of potential fraud in a system;
 - Advice to management and staff re fraud and corruption; and
 - The reporting of conduct and how fraud can be identified and reported.
- Alerting relevant staff of National Fraud Bulletins and ensuring that the Council's internal controls are adequate;
 - Timely annual reminders are sent to Members and staff of their responsibilities within their respective Codes of Conduct, regarding declaration of interests, gifts and hospitalities; and
 - Completion of national fraud and corruption surveys.

Policies and Procedures

- 8.9 The Council is committed to ensuring that any opportunities for committing fraud and corruption are minimised. It adopts a culture in which all of its employees, Members and stakeholders can help the organisation maintain a proactive attitude towards preventing fraud and corruption by reporting fraudulent, corrupt, dishonest or unethical behaviour.
- 8.10 To support this the Council has a range of interrelated policies and procedures that provide a corporate framework to counter fraudulent and corrupt activity. These have been formulated in line with appropriate legislative requirements and are available to all through the Council's website and intranet facility (BEN).

National Fraud Initiative

- 8.11 Councils are required to participate in the biennial National Fraud Initiative (NFI), THE Audit Commission lead exercise involving data matching of records nationally from public service databases. Audit Services take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) and the Benefit Fraud Partnership working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.
- 8.12 The results of matching the data submitted to the Audit Commission for the NFI 2012/13 exercise have now been released.
- 8.13 In respect of Babergh 1,739 matches were identified. Applying the NFI recommended filters it appears that 530 matches should be prioritised for investigation, which will be overseen by Audit Services during the year.

Benefit Fraud

- 8.14 The Counter Fraud Team based at Ipswich Borough Council Offices is a section within the Audit Partnership that was formed in 2011. The team is an amalgamation of existing investigators from Ipswich Borough, Babergh and Mid Suffolk District Councils. The Team undertakes dedicated fraud prevention, detection, investigation and intelligence gathering activities on behalf of the three Councils.
- 8.15 Appendix A details the Corporate Counter Fraud – Business Plan 2013/14 and has been incorporated within this report to reassure Babergh stakeholders that robust processes exist to deal with any corrupt or fraudulent activity.
- 8.16 Although the Business Plan 2013/14 makes reference to corporate fraud this still remains the responsibility of Audit Services across Babergh and Mid Suffolk in terms of prevention, detection and investigation.
- 8.17 The Counter Fraud Team can, with agreement, undertake corporate fraud investigations on behalf of Babergh and Mid Suffolk.
- 8.18 The following table provides key information and a breakdown of the benefit fraud cases for all of 2011/12 and up to the end of December 2012, as supplied by the Counter Fraud Team:

Category	2011/12	2012/13 (up to end of Dec 2012)
Number of referrals received within the year	227	188
Number accepted for full investigative action	30*	106
Number of full investigation cases completed	56	53
Number of cautions administered	27	7
Number of administrative penalties administered	12	6
Number of successful prosecutions at court	9	7
Overpayments identified	£110,082.92	£46,770.22

Key: * Fraud management system only reporting 01/10/2011 -31/03/2012 – Available management data not carried over when system upgraded.

Note: 18 prosecution cases going into the final quarter (3 convicted in January 2013; 2 in court in February; 3 in court in March; and 10 awaiting a court date).

- 8.19 Looking ahead - From 1st April 2013, Benefit Fraud work will follow the policies and procedures of the Single Fraud Investigation Service (SFIS) when conducting benefit fraud and Tax Credit enquiries. The SFIS will eventually see the amalgamation of Local Authority investigations with those from the Department for Work & Pensions (DWP) and Her Majesty's Revenue & Customs (HMRC) to become a national benefit counter-fraud organisation. The working arrangements are yet to be clarified, with an original expectation that officers may move to SFIS sometime in 2015. In the meantime, local authority investigators will remain at their current base.

Reported corporate fraud cases during 2012/13

8.20 Other than benefit fraud identified by the Counter Fraud Team and through the NFI exercise, as mentioned earlier, there have been no reported cases of fraud and corruption made to Audit Services.

Key Priorities Future Work

8.21 Some areas where a focus can be expected for 2013/14 are as follows:

- Babergh and Mid Suffolk's Anti Fraud and Corruption Policy to be reviewed with the aim of producing one aligned document in line with best practice. For ease of reference it is intended to incorporate the Money Laundering Regulations and Bribery Act policies into this document, thus forming a comprehensive Anti-Fraud and Corruption document. This will be available to all on the Council's website and intranets;
- Continue ongoing NFI exercise;
- Supporting both Councils to improve levels of awareness of fraud risks amongst managers, staff and third party partners, e.g. produce, at least annually, a fraud newsletter that highlights fraud issues for awareness;
- Further improve the effective communication of Council policies, procedures and codes relating to anti-fraud; and
- Work with colleagues within each Council, including Human Resources and externally with other councils and other public bodies to share expertise and maximise the efficiency and effectiveness of anti-fraud across both Councils.

Conclusions

8.22 The current Anti-Fraud & Corruption and Whistleblowing Policy, incorporating the Counter Fraud Strategy, supported by a sound network of systems and procedures continue to provide a clear framework for preventing and tackling fraudulent and corrupt acts against the Council, however, it is acknowledged that the Policy requires updating.

9. Appendices

Title	Location
A – Corporate Counter Fraud – Business Plan 2013/14	Attached

10. Background Documents

10.1 Anti-Fraud & Corruption and Whistleblowing Policy

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Corporate Counter Fraud –

Business Plan

2013 – 2014

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1 Introduction

- 1.1 Local Authorities have a duty to safeguard public funds and take responsible steps to ensure that Housing and Council Tax benefit payments are made to the right people at the right time. All Members, managers and staff of the three Councils who share the counter fraud partnership capability are committed to a zero tolerance of any fraudulent activity.
- 1.2 The Counter Fraud Team based at Ipswich Borough Council Offices is a section within the Audit Partnership that was formed in 2011. The team is an amalgamation of existing investigators from Ipswich Borough, Mid-Suffolk and Babergh District Councils. It undertakes dedicated fraud prevention, detection, investigation and intelligence gathering activities on behalf of three Local Authorities.
- 1.3 The team receives referrals from internal staff, external agencies and departments (including the data matching exercises) along with anonymous referrals from members of the public. A confidential telephone Fraud 'Hotline' (Tel: 01473 433999), is available for members of the public to report their suspicions of benefit and housing fraud. In addition, fraud referral forms are available to staff and the public at various Council establishments and suspected fraud can also be reported via the Council websites on the Internet.
- 1.4 In all cases where fraud is suspected or alleged, resources from the investigation team will be allocated to assess the cases; we may involve partner agencies where necessary and appropriate. Potential investigations are not solely focused on benefit fraud but can involve any suspicion of fraudulent or corrupt activity involving the work of the partnership Authorities; both internally and externally.
- 1.5 Examples of the widening scope of investigations include tenancy fraud, right to buy fraud, undertaking whistleblowing investigations and a host of activities authorised under Proceeds of Crime Legislation now that a team member is trained as a Financial Investigator.
- 1.6 This Business Plan will reassure stakeholders within the shared Audit Partnership areas, Members of the three Local Authorities, all staff and members of local communities that robust processes exist to deal with any corrupt or fraudulent activity.
- 1.7 From April 2014 (slippage from April 2013) it is planned that the Welfare Reform Bill will result in Benefit Fraud investigations being conducted in accordance with the priorities, policies and processes operating within the Department of Work and Pensions. This Business Plan will be operating until that change occurs.

2 Aims and Objectives

2.1 This Business Plan:

- Sets out the key activities the Service delivers;
- Sets out targets for the Service to achieve and the resources allocated to the Service to achieve these targets;
- Identifies the main risks associated with delivery of the targets;
- Identifies key changes proposed for 2013 to 2014 and highlights future changes in the Service.

2.2 This Plan has been agreed between the three relevant partnership Heads of Service, the Audit Partnership Manager, members of the Shared Revenues Partnership Board and has been reported to the Audit Committees of the three Authorities.

2.3 Colleagues within the Service Area have been consulted upon the requirements of the plan. The responsibility for monitoring performance in this area lies with the members of the Audit Committees, Shared Revenues Partnership Board and general performance delivery is managed by the Corporate and Counter Fraud Manager. Formal performance reports will be made to the Audit Committees of the Partnership Authorities every six months.

2.4 Whilst the focus of this Business Plan is on 2013 to 2014 it also sets out particular challenges that are likely to occur as the Service moves away from Local Authority control over the next 2 years.

3. The main issues for the Corporate Counter Fraud Service that are expected to arise in 2013 to 2014 include:

- I. Informing and training staff in the policies, priorities and processes operated by the Department of Work and Pensions in readiness for 2014.
- II. Developing the pro-active Corporate Fraud activities of the Service with more priority being given to Housing Tenancy Fraud and Right to Buy allegations.
- III. Directing additional investigative and asset recovery work against convicted offenders where appropriate.
- IV. Providing support to the Audit Partnership Manager in the delivery of Money Laundering training at partnership authorities.
- V. Establishing better working protocols with external partners for improved service delivery including; the police, the DWP, the immigration service, the Crown Prosecution Service and Her Majesties Revenues and Customs.
- VI. Continuing to embed home working as a cost effective feature of the service.
- VII. Achieving budgetary targets for the Service.

- VIII. Improving understanding across all Partnership Authorities about the assistance the Service can provide in many enforcement areas, not least, developing capacity for the seizure of assets to increase revenue income.
- IX. Preventing and detecting fraud of the Housing and Council Tax Benefit schemes by providing fraud awareness training to staff in the SRP.
- X. Identifying fraudulent overpayments and contributing to the identification of incorrect benefit payments in order to maximise the subsidy which can be claimed by the authority and prevent financial penalty.
- XI. Progressing the application of Administrative Penalties, Formal Cautions (if available) and referring cases to the Council's Legal Section for prosecution or, where appropriate, to jointly sanction or prosecute offenders in partnership with the Department for Work and Pensions (DWP).
- XII. Publicise the work of the Anti-Fraud Team to the public at large through the Partnership Press Officers.
- XIII. Investigating suspected fraud in other council activity areas and, when required, 'Whistleblowing' referrals or internal disciplinary investigations.
- XIV. To increase information regarding the protected characteristics of those who are parties to investigations to identify any possible themes relevant to equality legislation.
- XV. Undertaking National Fraud Initiative data matching activities and such local proactive Fraud Drives assessed as a priority.
- XVI. Complying with procedural and legislative changes introduced during 2012 in such areas as surveillance and universal benefits.

4 Description of Service considerations

- 4.1 Investigation of benefit fraud is recognised as a sensitive area and must take into account the Customer Care Policies and Human Resource Policies of the three Local Authorities.
- 4.2 The investigation team members act in accordance with existing national best practice. Investigators report the outcome of an investigation to an independent manager for an appropriate sanction to be considered. Sanctions will include prosecution, issuing Administrative Penalties or fixed penalties in accordance with the Department of Work & Pensions, "Fraud and Error Penalties and Sanctions" report dated October 2011.

5 Additional Work Activity Planned for 2013 – 2014

Change	Objective	Additional LA Costs above staff time	Impact	Dependencies
Introduce new emerging working practices in line with those at DWP by 2014.	To standardise working practices in anticipation of the DWP, LA & HMRC amalgamation planned for 2015.	Zero	Existing LA policies will be superseded; sanction policies are one such area.	Enactment of the Welfare Reform Bill, SFIS pilot site reviews and DWP Change Management Project Plans.
Develop additional pro-active fraud work; particularly Housing Tenancy Fraud cases.	To detect cases of fraud such as illegal sub-letting to increase social housing availability.	Zero	Improved internal working and protection of housing stock.	Publicity of fraud reporting avenues. Allocation of suitable investigative capacity. Support from Tenancy Services.
Develop a robust 'due diligence' process for Right to Buy and investigate anomalies.	To detect cases of fraud and potential money laundering activities.	Zero	Improved internal working and protection of housing stock	Continue support from the Right to Buy Team and Legal Services.
Undertake investigations from the new SRP Risk Based Verification Process	To assess the roughly 20% of benefit applications in the high risk category	Zero	Perhaps some 700 new investigations per year requiring resourcing.	To assessments by SRP staff and the contracted private company.
Establish robust working protocols with external partners.	To improve joint partnership working and Appropriate information exchange.	Zero	To better define investigative roles and to ensure partner expertise is best used.	The willingness and resource availability of enforcement partners to engage and assist.

Change	Objective	Additional LA Costs above staff time	Impact	Dependencies
Introduce a 'proceeds of crime' expertise to the fraud service; with confiscation powers after June 2013.	To advise across LA's and assist with asset seizures.	£1,300	Increase revenue across LA's as the assets of those convicted can be seized.	Trained and accredited member of staff.
Develop the level of diversity information available to the fraud manager.	To ensure that the fraud service area supports obligations of the Equalities Act	Zero	To improve the diversity information available about those involved in fraud investigations.	The self-declared diversity information has been completed upon the benefits claim form.
Develop trained resource to support Internal Disciplinary and Whistleblowing cases.	To provide resilience to ensure the Council is effectively resourced to manage Disciplinary and Whistleblowing cases.	£1000	Enable effective and efficient investigative processes across the Council.	Appropriately trained staff and sufficient time allocation.

6 Partnership Resources

6.1 Budget

The budget cost for the Fraud Investigation Services provided to the SRP is £370,000 provided that there is no material increase in the level of activity of Fraud Investigation Services.

The contribution of each partnership Authority to this annual budget has been agreed as:-

- Ipswich Borough Council 59.14% or £218,818
- Babergh District Council 26.32% or £ 97,384
- Mid-Suffolk District Council 14.54% or £ 53,798

6.2 Staff

The compliment of the Fraud Team is; 1 manager full time, 1 team leader full time, 4 investigators full time, 2 part time investigators providing 1.5 FTE and 2 part time Support Staff providing 0.6 FTE. Unfortunately 1 full time investigator has been sick since July 2012

7 Interim Partnership Performance 1 April 2012 to 31st December 2012

Key Performance Indicators & Interim Performance to Q3 (2012 - 13)

- 7.1 The Department of Work and Pensions require a quarterly return from the fraud service that assesses performance in the areas of; the number of benefit investigations, the number of sanctions and the number of investigators available. These assessments are made on an individual Authority basis and contribute to the decision on the scale of the Administrative Grant paid to each Authority.
- 7.2 To date the performance of the investigators meets and exceeds the targets set at the Department for Work and Pensions.
- 7.3 At the start of this performance period a whole team performance indicator was agreed which was to identify, through investigations, loss by fraud and error to the SRP partnership authorities that would exceed the total budget of the unit (£370,000) by £50,000. All staff have been working towards achieving that target of identifying £420,000 in losses to the Councils for the 2012 – 2013 financial years.
- 7.4 By 31st December 2012, the end of quarter 3, the total figure for fraudulent activity identified across the partnership stands at £369,782.02.
- 7.5 The fraud unit also commenced work with Housing Tenancy Services during 2012 to develop a partnership and assist in identifying tenancy fraud relating to Council Housing; usually sub-letting by tenants. A notional target to reclaim one property through this work by the end of this performance period was agreed with Housing Tenancy Services. I am pleased to report that four Council properties have now been reclaimed through investigative work (1 at Babergh and 3 at Ipswich) and others are likely to be reclaimed prior to year end.
- 7.6 Other Local Authorities use an indicative figure of £18,500 per property reclaimed through tenancy fraud investigations. This is the estimated cost to the Council for providing emergency accommodation due to the lack of housing stock. Using this figure some £72,000 has been saved for partnership authorities at the end of quarter 3 through fraud investigations with further cases being progressed. Some actually use the build cost of the property which is many thousands more than claimed.
- 7.7 Another area new to the fraud unit has been focused at Ipswich, but is a service available to both Babergh and Mid-Suffolk District Councils. This is allocating some capacity of an experienced investigator to provide a robust 'due diligence' process for the Right to Buy Process. By the end of quarter 3 a number of investigative avenues have been pursued and it is expected that some Right to Buy Applicants will not be continuing with their applications. Some fraudulent activity has already been identified and two Suspicious Activity Reports have been made to the Serious and Organised Crime Agency under Money Laundering legislation. Success in this area will be quantified and reported later in 2013.

7.8 **Mid Suffolk District Council – Performance:** 01.04.12 – 31.12.12

Approximate Number of H & C Tax Benefit customers: 5,600

Number of investigators: Q1 – 1, Q2 – 1, Q3 - 1

Referrals: 149

Cautions: 5

Administrative Penalties: 11

Prosecution: 5

Overpayments identified: £142,285.60

7.9 **Babergh District Council - Performance:** 01.04.12 – 31.12.12

Approximate Number of H & C Tax Benefit customers: 6,600

Number of investigators: Q1 – 1.8, Q2 – 1.8, Q3 – 0.8

Referrals: 188

Cautions: 7

Administrative Penalties: 6

Prosecution: 7

Overpayments identified: £46,770.22

7.10 **Ipswich Borough Council Performance:** 01.04.12 – 31.12.12

Approximate Number of H & C Tax Benefit: 15,300

Number of investigators: Q1 – 2.7, Q2 – 2.7, Q3 – 2.7

Referrals: 386

Cautions: 13

Administrative Penalties: 13

Prosecution: 16

Overpayments identified: £180,726.20