
Report to Audit and Finance Committee

Date of Meeting: 17 November 2016

Subject: Annual Fraud Report 2015/16

Report by: Head of Resources and Governance

1.0 Purpose

- 1.1. This report provides members with an update on the work that was undertaken during 2015/16 in relation to fraud.

2.0 Recommendations

- 2.1. The Committee is asked to note, comment on and challenge the Annual Fraud Report 2015/16.

3.0 Considerations

- 3.1. The Council has a responsibility to protect public funds and in doing so, all stakeholders have a role to play in ensuring fraud and corruption are minimised. With an increasing demand on Council services, reduced funding to local government and current economic environment, mitigating fraud risk is an integral part of protecting public funds to ensure that financial resources are allocated where they are needed.
- 3.2. The Council has arrangements to mitigate the risk of fraud, and where it does occur, to investigate, detect and pursue recovery of amounts fraudulently obtained. In all cases, the Council will consider sanctioning those who commit fraud. The Annual Fraud Report provides members with an overview of the:
- 2015/16 national fraud context
 - Council approach to fraud investigation
 - Key fraud investigation activities undertaken in 2015/16 by the Council
 - Outline proposals for future fraud prevention and detection activity

Conclusion

- 3.3 The existing arrangements, as described in the attached Annual Fraud Report (Appendix A) indicate that Clackmannanshire Council remains well placed to prevent fraud and deal with it effectively when it does occur.

4.0 Sustainability Implications

- 4.1. There are no sustainability implications.

5.0 Resource Implications

5.1. *Financial Details*

- 5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. No ☒

- 5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☒

5.4. *Staffing*

- 5.5. There is some uncertainty about the future level of staffing in the Internal Audit and Fraud section

6.0 Exempt Reports

- 6.1. Is this report exempt? No ☒

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

- (1) **Our Priorities** (Please double click on the check box ☒)

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

(2) Council Policies (Please detail)

Financial Regulations.

8.0 Equalities Impact

- 8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
No ☒

9.0 Legality

- 9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☒

10.0 Appendices

- 10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A - Annual Corporate Fraud Report 2015/16


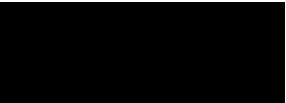
11.0 Background Papers

- 11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)
Yes ☒ (please list the documents below) No
Fighting Fraud Locally - The Local Government Fraud Strategy
Fighting Fraud Together - The Strategic Plan to Reduce Fraud
Protecting the Public Purse 2013 - Fighting Fraud Against Local Government -November 2013
The National Fraud Initiative in Scotland - Audit Scotland - July 2014

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Approved by

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**Clackmannanshire
Council**

www.clacksweb.org.uk

Annual Corporate Fraud Report 2015/16

1.0 Introduction

- 1.1 Clackmannanshire Council recognises its responsibility to ensure the public finances it administers are used efficiently, effectively and for the purposes they were intended. The Council recognises that it is vulnerable to fraud and corruption and, in the current economic climate, acknowledges the increased risk posed by such illegal activities against valuable public funds.

2.0 Fraud in the wider national context

- 2.1 The risk of fraud affects all areas across the public sectors including Local and Central / devolved government departments and the National Health Service. While fraud associated with the tax and benefits systems accounts for the largest recorded losses, there are significant losses relating to other forms of expenditure. These include procurement spending, and grants, where people seek to exploit local or national schemes for their personal gain. Fraud can be committed internally by employees or externally by suppliers, contractors and members of the public. It covers a wide spectrum of activities.
- 2.2 Previous annual fraud reports relied on information provided by the National Fraud Authority (NFA) as they provided a reliable UK global estimate of fraud losses. The NFA was dissolved in 2014 and the University of Portsmouth, in association with others, have produced an 'annual fraud indicator' using a methodology developed in line with the ground-breaking work of the now defunct NFA. The work is underpinned by a group of cross-sector fraud experts who regularly meet under a broad umbrella known as the United Kingdom Fraud Costs Measurement Committee (UKFCMC). The work of UKFCMC helps to lay down a benchmark by which year-on-year sector-specific fraud analysis –including the public sector- can be made.
- 2.3 According to UKFCMC the latest annual estimates for losses due to fraud are¹

Private Sector Losses	- £144 billion
Public Sector Losses	- £37.5 billion
Fraud against Individuals	- £10 billion
Charities Fraud	- £1.9 billion

Total estimated UK losses - £193 billion

- 2.4 Given an overall budget of £694 billion spent on national/local Government, the Public Sector Losses of £37.5 billion translates into an estimated 5.5% loss caused by fraud over the whole of the public sector. Consequently, assuming Clackmannanshire Council also averages losses of 5.5% of its budget of £114 million it could mean that the Council is potentially losing an estimated £6.2 million through fraud or error. However, there is an alternative scenario. According to National Audit Office analysis, the UK figure is a loss of only 0.2% of expenditure through fraud, compared with estimates of 3% to 5% in the European Union and United States. Therefore, assuming the lower amount of loss as 0.2%, is accurate, it still means potential losses to the Council of around £230,000 annually.

¹ <http://www.port.ac.uk/media/contacts-and-departments/icjs/ccfs/Annual-Fraud-Indicator-2016.pdf>

3.0 Fraud in the Local Context

- 3.1 Clackmannanshire Council has consistently discharged its responsibilities in relation to preventing, detecting and recovering public funds lost through fraud. The Council's zero tolerance approach to fraud is demonstrated by its existing arrangements as well as the continuous work and improvements demonstrated during 2015/16.
- 3.2 The Council's strategic objectives for counter fraud work are:
- **Awareness: We will prevent more fraud by achieving a step change in awareness of fraud among Clackmannanshire Council employees, the general public and organisations in the private, public and voluntary sectors.**
 - **Prevention and Detection: We will prevent more fraud through stronger systems and controls and detect fraud using all legal means at our disposal.**
 - **Enforcement: We will strengthen our response through deployment of the Council's Prosecutions Policy.²**
- 3.3 Recommendations of the former Audit Commission and those equally pertinent to Scotland include:
- retaining a capability to investigate fraud corporately and not only restricted to housing benefit;
 - improving / increasing the use of data, information and intelligence to focus their counter-fraud work;
 - reviewing counter-fraud arrangements in the context of the (former) NFA's strategy for local government, Fighting Fraud Locally,
 - working with other registered social housing providers to improve the use of civil and criminal action to deter tenancy fraudsters;
- 3.4 In terms of enforcement, the council no longer investigates mainstream benefit fraud, consequently the overall caseload has reduced significantly. Council was previously advised that responsibility for benefit fraud investigations was transferred in November 2015 to the Department for Work and Pensions, along with a member of staff.
- 3.5 Counter fraud activity during 2015/16 has mainly involved internal investigations and has seen a more collaborative approach to investigations between counter fraud specialist staff and colleagues in HR. While no criminal activity has been identified as a result of investigations, breaches of Council financial regulations were identified in some instances and recommendations made accordingly.

² Clackmannanshire Council 'Fraud Strategy 2013-17'.

3.6 Other Key achievements during the year include:-

- Preparation for participation in the 2016/17 National Fraud Initiative
- 3 successful prosecutions for high value cases (over £50k each) totalling £165,746.71 under the former benefit fraud obligations
- Ongoing internal 'corporate' investigations
- Fraud awareness sessions delivered to procurement matters group

4.0 Fraud Performance

National Fraud Initiative 2014/15

- 4.1 In November 2014, Clackmannanshire Council began its bi-annual participation in the National Fraud Initiative (NFI). This targeted fraud exercise is administered by Audit Scotland, and is a collaborative initiative involving a range of Scottish public sector bodies, external auditors and the Cabinet Office. Its overall aim is to identify public sector fraud and error and where identified taking appropriate corrective action.
- 4.2 The outcome of the 2014/15 National Fraud Initiative saw the identification of £24,919 in fraud or irregularities. Of this sum, £12,058 was directly benefit related fraud and the remaining £12,861 was identified as duplicate invoice payments.

Progressing counter fraud activity

- 4.3 As reported, the combination of welfare and tax fraud into a new Single Fraud Investigation Service continued to be rolled out during the reporting period and is expected to be completed by 2017. In Clackmannanshire's case, responsibility for investigating welfare and tax fraud transferred in November 2015.
- 4.4 The Councils Future Fraud Prevention and Detection Activity and Corporate Fraud Objectives remain as;
- Continued Participation in and Completion of the ongoing National Fraud Initiative throughout 2016/17
 - Increased use of data matching to establish possible incidences of fraud in areas such as the Council Tax Reduction Scheme
 - Ongoing roll out of a Council-wide awareness training
 - Specialist guidance on specific anti-fraud subjects e.g. Money Laundering, ID theft, Forgery etc.
 - Targeted training in anti-bribery and money laundering training
 - A comprehensive revision of the whistle-blowing policy
 - Areas considered as 'high risk' of potential fraud are;
 - Housing Allocations
 - Procurement
 - Homelessness applications
 - Council Tax Reduction Scheme
 - Insurance Claims
 - Internal Fraud

- Recruitment
 - Blue Badge Scheme
 - Direct Payments (Social Care)
 - Grants
 - Social Welfare Fund
- Provide a consultancy role for internal investigations, particularly where criminality may be involved

5.0 Conclusions

- 5.1 An increasing focus on fraud prevention and detection throughout the public and private sectors nationally, demonstrates an increased importance being placed on reducing fraud, both as an additional means of addressing one of the economic pressures affecting the public sector as well as demonstrating accountability, transparency and a commitment towards the proper management and administration of public funds.
- 5.2 A major shift in the types of investigations undertaken has occurred in 2015/16, this change may require a review to be carried out of the current combined fraud and audit arrangements. Internal investigations have proven to be more human resource orientated and intensive, This change would indicate that closer analysis is required to determine where anti-fraud resources should be directed.

