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**Report to Resources and Audit Committee**

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**Date of Meeting: 4 October 2012**

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**Subject: Annual Fraud Report 2011/12**

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**Report by: Director of Finance and Corporate Services**

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**1.0 Purpose**

- 1.1. This report provides members with an update on the work that was undertaken during 2011-12 in relation to fraud.

**2.0 Recommendations**

- 2.1. Members are asked to note the Annual Fraud report and comment on the activity undertaken during 2011/12.

**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 the increasing demand on Council services, reduced funding to local government and current economic environment, mitigating against fraud is an integral part of protecting public funds and ensuring that financial resources are allocated where they are needed.

- 3.2. The Council has in place arrangements to mitigate against fraud, and where it does occur, to detect and recover amounts fraudulently obtained. The Annual Fraud Report provides members with an overview of the:

- 2011/12 national fraud context
- Council approach to fraud investigation
- key fraud investigation activities undertaken in 2011/12 by the Council
- fraud prevention activity

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

#### 4.0 Sustainability Implications

4.1. None

#### 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. Yes

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

5.4. *Staffing*

5.5. *None*

#### 6.0 Exempt Reports

6.1. Is this report exempt? Yes  (please detail the reasons for exemption below) 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
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

(2) **Council Policies** (Please detail)

#### 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?  
Yes  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".

Annual Fraud Report 2011/12

## 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**


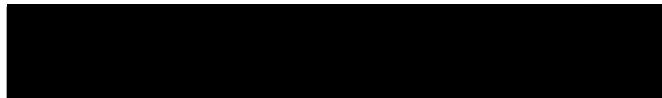
**Protecting the Public Purse 2011 - Fighting Fraud Against Local Government - November 2011**

**The National Fraud Initiative in Scotland - Audit Scotland - May 2012**

### Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Richard Saunders	Fraud Manager	456209
Susan Mackay	Revenues and Payments Manager	452047

### Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Director Finance & Corporate Services	
Elaine McPherson	Chief Executive	





# Clackmannanshire Council

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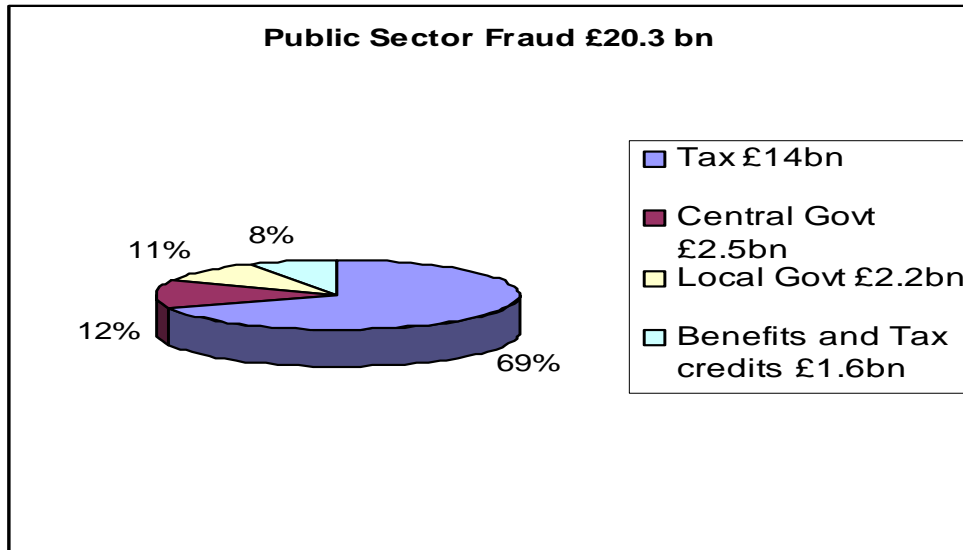
## Annual Corporate Fraud Report

### 1.0 Introduction

- 1.1. Clackmannanshire Council has a responsibility to ensure that the public finances that 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, given the current economic climate, it acknowledges that fraud and corruption continues to present an increasing risk to public funds.
- 1.2. The purpose of this report is to provide members with an update on the work that was undertaken during 2011-12 in relation to fraud.

### 2.0 Fraud in a National Context

- 2.1. The Annual Fraud Indicator published by the National Fraud Authority (NFA) estimated that in 2012 annual fraud loss will cost the UK economy £73 billion with £20.3 billion of this sum affecting the public sector. The majority of this relates to fraud against the tax system, however approximately £6 billion of this is estimated to be lost in areas such as payroll, procurement, grants and pensions.
- 2.2. A breakdown of the £20.3 billion fraud affecting public sector is provided below, with just over 10% being projected to affect local government:



2.3. The table below provides a breakdown of the £2.2 billion fraud affecting local government:

<b>Fraud Type</b>	<b>Fraud Loss</b>	<b>%</b>
Housing tenancy fraud	£900 million	41%
Procurement fraud	£890 million	40%
Payroll fraud	£153 million	7%
Council tax fraud	£131 million	6%
Blue badge scheme misuse	£46 million	2%
Grant fraud	£41 million	1.8%
Pension fraud	£ 6 million	0.2%
Other fraud	£ 33 million	2 %

2.4. There is an acknowledgement nationally of the role that local government can play in the prevention and detection of fraud and this approach is outlined by the National Fraud Authority within "Fighting Fraud Locally, The Local Government Fraud Strategy". The Strategy recognises the need for genuine partnership between local and central government with a joint strategic approach. This allows local government to use its local knowledge and partnership arrangements to prevent, identify and recover fraud, while central government can create the conditions for the necessary initiative to be undertaken locally. This

strategy is supported by CIPFA, IRRV and external audit firms including Deloitte and Grant Thornton

2.5. In November 2011 the Audit Commission in England published 'Protecting the Public Purse 2011; Fighting Fraud against Local Government'. This report acknowledged the work done by Councils in recent years to combat fraud. As part of the report, the Audit Commission surveyed around 480 English public sector bodies and found the following:-

- Local public bodies detected about 121,000 frauds, valued at £185 million. This compares with 119,000 detected frauds valued at £135 million in 2009/10.
- The total value of detected fraud losses for 2010-11 increased by 37% compared with 2009-10, with the number of fraud cases also increasing,
- Councils recovered nearly 1800 homes from tenants using their homes fraudulently, with these homes having a replacement value of over £266 million,
- There were about 59,000 housing benefit and council tax benefit fraud cases, resulting in losses of £110 million to the public purse. These fraud cases represent more than half the total value of frauds detected by local public bodies in 2010/11.

2.6. The report also acknowledged the Commission's view that fraud is likely to increase in coming years because of increased pressures on public resources and stated authorities could do more to tackle fraud effectively.

2.7. The main recommendations for English local authorities, that are also relevant to Scotland included:

- retaining the capability to investigate fraud that is not related to housing benefit;
- improving their use of data, information and intelligence to focus their counter-fraud work;
- reviewing their counter-fraud arrangements in the context of the 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;

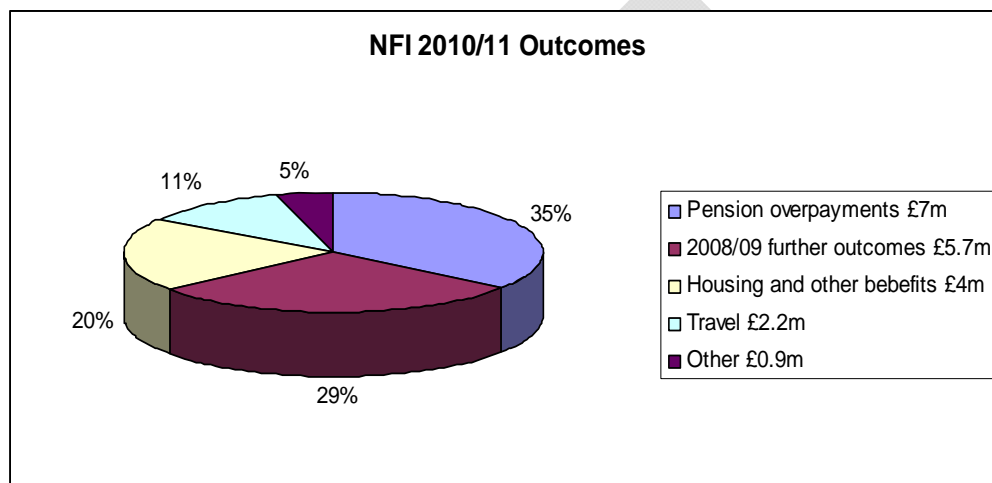
2.8. During 2011/12, Audit Scotland undertook its bi-annual National Fraud Initiative (NFI), the national counter-fraud exercise working together with a range of Scottish public sector bodies, external audit and the Audit Commission, to identify fraud and error.

2.9. The success of the NFI comes from the public sector organisations who contribute and who:

- export the data and investigate NFI matches

- identify and stop fraud and errors
- recover overpayments
- hold individuals to account
- improve their systems and internal arrangements

2.10. For the NFI 2010/11 in Scotland, 287,000 matches were recorded of which 11% were flagged as being of high risk of fraud or error. Nationally, £14.1 million of fraud or error were identified through the data matching exercise, with a further £5.7m being progressed from the 2008/09 exercise.



2.11. Of the fraud and error detected in Scotland through the data matching exercise:-

- 4,403 blue badges were stopped or flagged for future checks,
- 2,731 concessionary fares were stopped,
- 1,528 housing benefit payments stopped or reduced,
- 184 occupational pensions stopped,
- 89 creditor errors identified,
- 45 cases to be prosecuted,
- 10 employees dismissed or resigned

2.12. Finally, the Bribery Act was introduced in 2010, which created new statutory responsibilities. While this legislation was not aimed directly at public sector organisations, it does lay out responsibilities to ensuring that organisation arrangements mitigate against the payment or receipt of bribes.

- 2.13. There is an increasing focus on fraud prevention and detection at a national level. This illustrates the importance that is being placed on reducing fraud as a means in addressing the economic pressures that are affecting public sector, together with demonstrating accountability and transparency for proper management and administration of public funds.

### **3.0 Fraud in a Local Context**

- 3.1. Clackmannanshire Council acknowledges its responsibilities in relation to preventing, detecting fraud and recovering public funds lost through fraud. The Council has a zero tolerance approach to fraud and this is evident through its existing arrangements and the ongoing work and improvements which have occurred during 2011/12.

- 3.2. The Council's approach to fraud is four fold:

- prevention - the best way to tackle fraud is to prevent it occurring in the first place. Prevention mechanisms include the Council's Governance Strategy and Framework, Core governance policies and procedures including Contract Standing Orders, Financial regulations and Scheme of Delegation, internal arrangements and controls, deterrent initiatives such as the NFI and Single Person Discount reviews for Council Tax,
- detection - if fraud occurs, mechanisms require to be in place internally to detect and report fraud. The mechanisms within the Council include the Audit and Fraud team, Whistleblowing Policy, Prosecution Policy, participation in the bi-annual NFI, staff, members and members of the public,
- recovery - if a fraud is uncovered, any monies lost require to be recovered - Recover mechanisms include the Housing Benefit Fraud Policy, which specifies recovery, prosecution and sanctions available to the Fraud Team and the Corporate Prosecution Policy and the Corporate Recovery Policy,
- training and awareness - everyone has a role to play in preventing and detecting fraud. Elevating the profile of the impact of fraud through awareness and training sessions is a key part of achieving prevention, detection and recovery. Mechanisms in place within the Council include e-training that is being rolled out to staff.

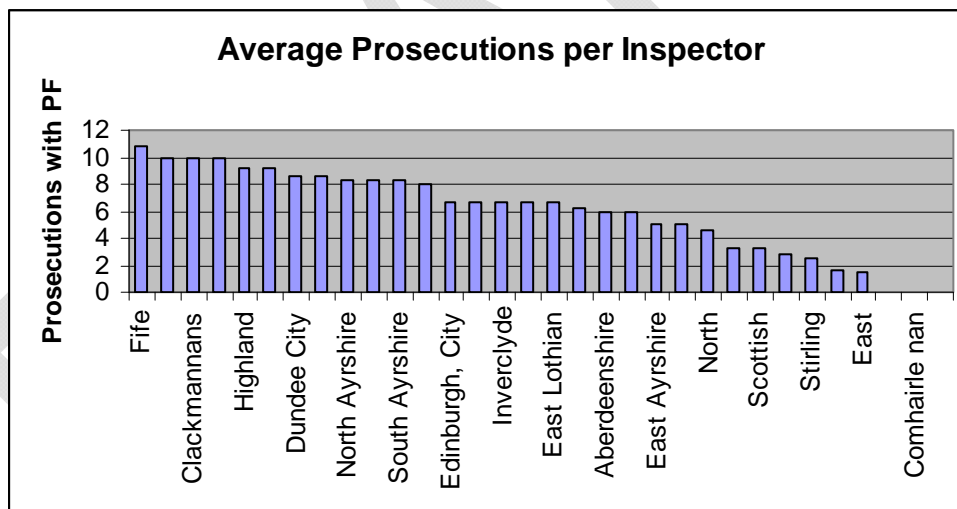
- 3.3. Key achievements during the year include:-

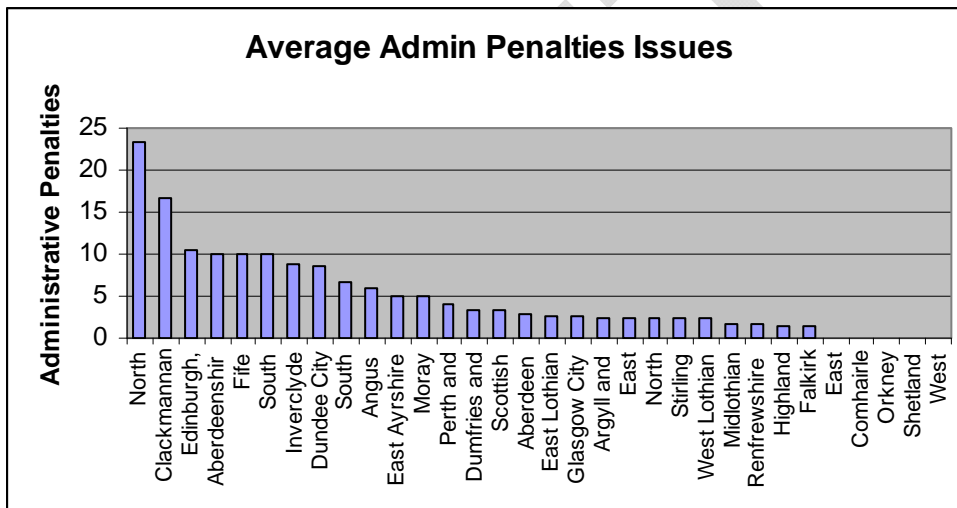
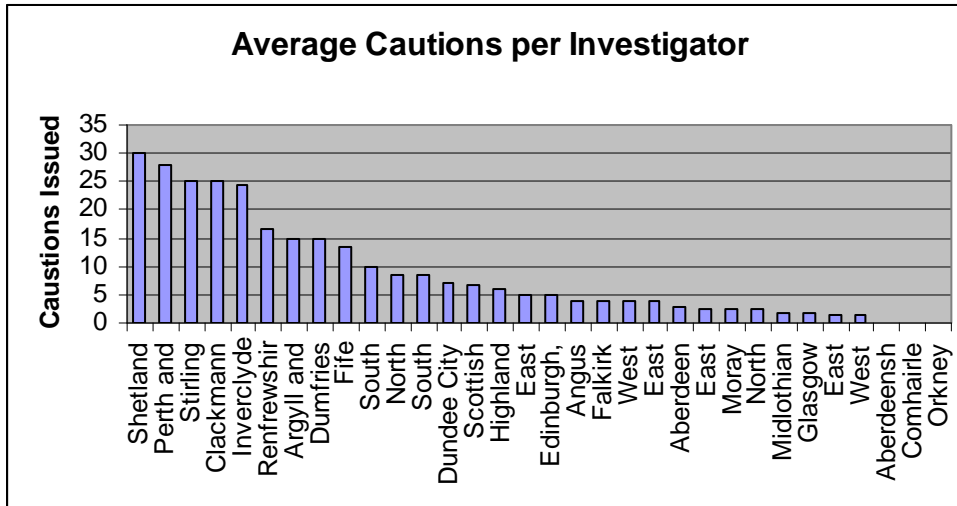
- the top quartile performance of the Fraud Team, for the prosecution and recovery of benefit fraud,
- the Fraud Team won Team of the Year in the Growing in Excellence Awards

- the approval of the structure for the new integrated Audit and Fraud Team
- the approval of the Prosecution Policy
- the successful participation on the NFI 2010/11

### Performance of Benefit Fraud Team

- 3.4. The original Fraud Team comprised three staff members undertaking the investigation and administration of Housing Benefits cases. As part of the restructure approved by Council in December 2012, this team is integrating with the Internal Audit team, to create the Audit and Fraud Team. The benefits investigation work will continue within the new integrated corporate team, ensuring the Council continues to achieve its objectives in relation to fraud detection and recovery.
- 3.5. For cases investigated that are the subject of some form of sanction, and as a proportion of the fraud referrals received, Clackmannanshire has one of the highest performance rates in Scotland. It consistently appears into the top quartile for performance. The teams performance in 2011/12 is as follows

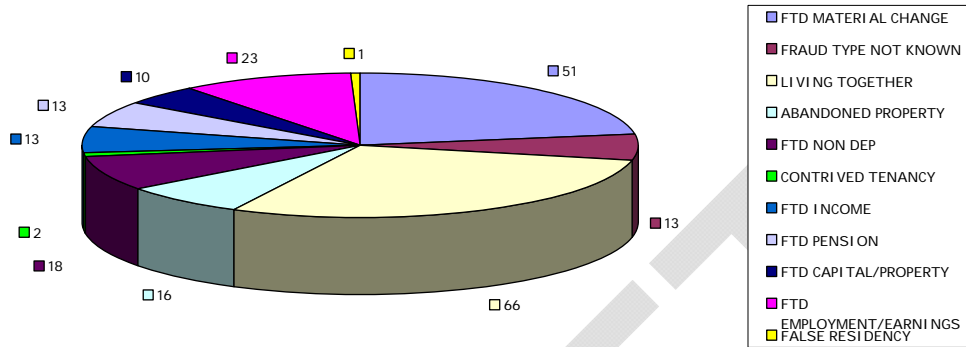




- 3.6. While benefit fraud continues to account for the largest proportion of fraud cases investigated, there have been a small number of instances where other types of suspicions of fraud have been undertaken. Where these such types of investigations are undertaken, the outcomes will be reported by the Audit and Fraud Team to the Resources and Audit Committee. Examples of other types of fraud investigates could include suspicions of theft or misappropriation, inappropriate use of Council property, non compliance with Council procedures etc.
- 3.7. The profile of the cases referred to the Fraud team during 2011-12 was as follows:

3.8.

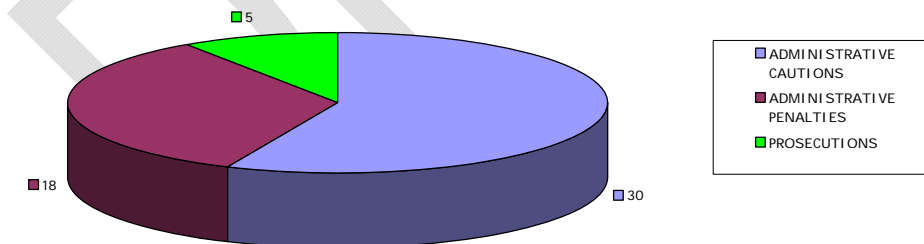
FRAUD REFERRALS (226)  
01/04/11 - 31/03/12



\* FTD - Failure to Declare

FRAUD SANCTION (53)  
01/04/11 - 31/03/12

OVERPAYMENT VALUE £ 115,859



3.9. As part of the integration with the Audit Team, a more joined up and corporate approach to operational fraud investigation has evolved utilising the combined skills and competencies of both professionally trained investigation staff and those of internal audit staff. This unified approach has allowed joint working to be taking place between the

teams both on the audit and fraud side. Over time it is expected that the integration of the audit and fraud teams will continue to strengthen the Council's position in terms of both fraud investigation and the assurance work of internal audit.

- 3.10. Integration of the audit and fraud functions is ongoing at present, joint working between the two parts of the service was an increasing feature in 2011-12 and will continue to progress steadily in 2012/13, supported by the teams Transitional Plan and Learning and Development Plan.

### **National Fraud Initiative 2010/11 and 2012/13**

- 3.11. The Council's participation in the NFI for 2010/11 commenced in the summer of 2010 with the planning and extract of data. The initiative is a cross service exercise which is coordinated by the Audit team. Services included in the data extract and matching exercise include Finance, Social services, Roads and Transportation, IT Services, Housing and Legal. Matches were available for investigation in early 2011, with all high risk matches being investigated by end September 2011.
- 3.12. In April 2011, a report was given to Scrutiny Committee on the NFI exercise, giving an update on progress to date. At that time, a total of 2,335 matches has been identified, 2,063 of which have been identified as high risk matches, and are summarised in the table below.

	Matches Identified	Matches Flagged as High risk
Housing Benefit	598	405
Creditors	1339	1339
Payroll	245	203
Housing rents/RTB	59	47
Private Residential Care Home	7	7
Blue Badges	65	61
Insurance Claimants	22	1

- 3.13. An additional 689 matches were provided during the summer of 2011, of which 554 (80%) related to Council Tax and the Electoral Roll. This data had been requested and matched later than the first batch of data. The remaining 135 matches related to an additional matches covering all the

other matched categories. Of the total additional matches all were flagged as high risk

- 3.14. At the end of the 2010/11 exercise, 10 fraud totalling £39,340 and 28 errors totalling £9,999 were detected amounting to £49,339. This compared in 2008/09 to 12 fraud totalling £47,328 and 4 errors totalling £1,216, amounting to £48,544 for 2008/09.
- 3.15. Of the 10 fraudulent cases, all related to Housing Benefit fraud and £36,690 is being recovered. The balance of £2,650 could not be recovered.
- 3.16. Of the 28 errors, only four resulted in financial loss. The four cases all related to overpayments to suppliers. Of the £9,999 overpaid, £2,853 has been recovered from the supplier, with the balance of £7,146 not being recovered due to supplier liquidation. The balance of the 24 errors related to data, such as National Insurance number not being correct. All 24 errors have been addressed.
- 3.17. An Improvement Plan has been prepared to address the housekeeping weaknesses, which resulted in the errors occurring. This related predominantly to the rationalising of duplicate suppliers on the purchase ledger.
- 3.18. The NFI for 2012/13 has commenced with data being collated by services. Data requires to be exported to Audit Scotland by early October with matches available in January 2013.

### **Annual Governance Statement 2011/12**

- 3.19. In March 2012, the Council approved the Governance Strategy and Code of Practice. The council also completed its first Annual governance Statement (AGS) in the 2011/12 Finance Statements. In completing the AGS, the Governance Panel was formed to provide peer and professional challenge to services in assessing their Governance arrangements and completing their Governance Improvement Plan. Services and corporate assessment of fraud was an key consideration in completing the Annual Governance Statement.

### **Fraud Going Forward**

- 3.20. In 2010 the UK government announced that as part of their Welfare Reform policy, it was their intention to create a UK wide 'Single Fraud Investigation Service' (SFIS). The SFIS would see a consolidation of local authority, DWP, HMRC and other civil service government department staff into a unified team covering the whole of the UK.
- 3.21. At the time of the announcement, the expected creation and integration of the new SFIS was April 2012. Following representations from local authority to the UK Government and feedback from a consultation, a pilot exercise is being trialled during 2012, with the expectation that the

new SFIS will be introduced in April 2013. The current proposal for the SFIS, is that local authority fraud staff will remain employed with the local authority, with their workload being coordinated by the central SFIS. The Council is currently awaiting feedback on the progress of the pilot exercises and this is due shortly.

- 3.22. It is not expected that the integration, objectives and service delivery of the Audit and Fraud team will be detrimentally affected by the proposed centralisation of fraud investigation to the SFIS.
- 3.23. The integration of the Audit and Fraud team will continue to progress during 2012, with corporate fraud being a key objective of this team. Improvements being undertaken during 2012/13 on corporate fraud include the following
- Preparation of the Fraud Strategy, reflecting the National Fraud Authority Strategy "Fighting Fraud Locally, The Local Government Fraud Strategy,
  - Preparation of the Data Matching Policy,
  - Completion of Self Assessment against Bribery Act requirements,
  - Roll out of Council-wide training and awareness on Money Laundering,
  - Embedding of the recommendations from the Audit Commission's Report 'Protecting the Public Purse 2011; Fighting Fraud against Local Government'

## **Conclusion**

- 3.24. The Council is committed to protecting public funds against fraud and has arrangements in place covering prevention, detection, recovery and awareness, to mitigate against the effects of fraud. This is reflected in the consistent top quartile performance of the Fraud team in Scotland in identifying fraud and sanctioning those caught committing an offence against the Council. Although the Council is facing some uncertainty with the SFIS in how fraud will be tackled in the future, it is strengthening its resources through the cross skilling of staff.
- 3.25. The challenges and pressures facing the Council in terms of decreased funding combined with an increasing demand and expectation for its services results in an ongoing exposure to fraud. However with the existing arrangements and the Council's commitment to continually improving these, Clackmannanshire Council is well placed to mitigate against fraud and deal with it effectively when it does occur.

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