

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 22 January 2015
Report of: Corporate Manager Governance and Audit
Title: Fraud and Corruption Update Report
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

1.1 Audit & Governance Committee has responsibility for overseeing the Council's arrangements to counter the threat of fraud and corruption. As such, it is important that the Committee is kept up to date with the latest developments, both locally and nationally, in this area.

1.2 This report provides members with:

- an overview of developments that are taking place nationally,
- an update on anti-fraud and corruption activity at Cheshire East; and
- details of work that will be completed to ensure compliance with best practice and improve Cheshire East's resilience to the threat of fraud and corruption.

2.0 Recommendation

2.1 Audit and Governance Committee is asked to note this report.

3.0 Reasons for Recommendation

3.1 In order to ensure that the Council has robust arrangements to counter the threat of loss through fraud and corruption it is essential that the relevant systems and procedures are subject to regular review against best practice and that identified weaknesses are managed.

3.2 Audit and Governance Committee's role in overseeing the Council's counter fraud arrangements is crucial for the Council to achieve its anti fraud and corruption objectives.

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 The existence of anti-fraud arrangements, in line with the Fighting Fraud Locally Strategy will contribute towards good governance.

7.0 Financial Implications

7.1 An overriding responsibility of the Council is the provision of effective and efficient services in a manner that seeks to ensure the best possible protection of the public purse in its delivery arrangements. Hence the Council must have appropriate policies and mechanisms to safeguard the Council's resources and reduce losses to fraud and corruption in all areas to an absolute minimum.

8.0 Legal Implications

8.1 The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local Government entities have a statutory duty to make arrangements for the proper administration of their financial affairs and appoint an officer to have responsibility for the administration of these arrangements.

9.0 Risk Assessment

9.1 The Council as a large organisation is at risk of loss due to fraud and corruption both from within the Council and outside it. The impact of fraud on the Council can have consequences that are serious and often far reaching. Financial loss is the obvious key risk but the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself. In order to mitigate this risk the Council needs to be explicit about the way fraud will be regarded and dealt with.

10.0 Background

National Issues and Developments

10.1 Fraud is a major issue facing the United Kingdom, and Local Government is not exempt from this. The Annual Fraud Indicator 2013, which was prepared by the National Fraud Authority prior to it being dissolved in March 2014, estimated total fraud loss against public bodies as £20.6bn with £2.1bn of this relating to Local Government.

- 10.2 Following the abolition of the National Fraud Authority, responsibility for the promotion of anti-fraud and corruption arrangements was passed to CIPFA.
- 10.3 In response, CIPFA launched the Counter Fraud Centre in July 2014 to lead and co-ordinate the fight against fraud and corruption across the public services. It is the UK's centre of excellence for counter fraud and is headed by Rachael Tiffen, former Deputy Director of the National Fraud Authority.
- 10.4 The Centre has close links with the Department for Communities and Local Government (DCLG), the National Crime Agency (NCA), Cabinet Office and other agencies with the aim of helping counter fraud practitioners:
- **Save money** by increasing organisations' ability to detect, prevent and recover losses from fraud.
 - **Protect reputations** by providing access to a comprehensive package of tools, training and consultancy to manage and minimise risk.
 - **Develop valuable skills** by offering new professional qualifications as well as CDP modules that explore the latest counter fraud threats and issues.
- 10.5 One of the first outputs from the centre was the publication, in October 2014, of the CIPFA *Code of Practice on Managing the Risk of Fraud and Corruption*. This was followed up in December 2014, when detailed guidance notes were published in support of the Code of Practice. These build on, and replace, CIPFA's previous guidance, *Red Book (Managing the Risk of Fraud, Actions to Counter Fraud and Corruption)* against which the Council's current arrangements were developed.
- 10.6 The Code is based upon the following five principles and the guidance notes provide detailed information on the implementation of each:
- Acknowledge the responsibility of the governing body for countering fraud and corruption
 - Identify the fraud and corruption risks
 - Develop an appropriate counter fraud and corruption strategy
 - Provide resources to implement the strategy
 - Take action in response to fraud and corruption

- 10.7 In response, Internal Audit has commenced the following work the outcome of which will be reported to future meetings of the Committee:
- A review of the current arrangements against the Code to identify areas of improvement and bring the Council in line with best practice.
 - Review and refresh of the Council's Fraud Risk Assessment including incorporating this and the Bribery Risk Assessment into the same document. This will ensure that as an organisation we are aware of the potential areas where fraud may occur and have robust controls in place to protect the Council and its resources.
 - Existing policies and procedures are being updated to take account of the latest guidance and will be supplemented by the production of the Council's Anti-Fraud and Corruption Strategy for 2015/16. The strategy will provide a clear direction, and set out responsibilities, for Members, managers and staff for identifying risks, prioritising resources and measuring the effectiveness of our approach to protecting the Council from fraud and corruption.

Local Government Transparency Code

- 10.8 From 2 February 2015 the Government's Local Government Transparency Code will be extended to cover a number of areas, including fraud.
- 10.9 Local authorities will be required to publish the following information about their counter-fraud work:
- Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information)(England) Regulations 2014, or similar powers
 - Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
 - Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
 - Total amount spent by the authority on the investigation and prosecution of fraud, and
 - Total number of fraud cases investigated.
 - This information will be published in the transparency area of the Council's website and also on the data.gov.uk website
- 10.10 An authority wide project is ongoing to ensure that the Council complies with the requirements of the Transparency Code and Internal Audit has liaised with the lead officer to provide support in ensuring that the sources of information relating to fraud have been identified.

Counter Fraud Fund

- 10.11 During July 2014, the Government announced that it was to make up to £16m available over the next two years in the form of a Counter Fraud Fund. The aim of the fund was to support local authorities during the implementation of the Single Fraud Investigation Service and increase the capacity and capability of local government to tackle losses from non-benefit fraud. Applications were invited between July and September 2014 with an expectation that submissions would be innovative, sustainable and not simply request funding to develop a corporate fraud unit.

Local Anti-Fraud and Corruption Activity

- 10.12 In response to the launch of the Counter Fraud Fund described above, our Internal Audit team met with colleagues from Cheshire West & Chester, Warrington and Halton Councils to discuss whether it would be possible to develop a collaborative bid for funding. As a result, a joint bid entitled 'Fighting Fraud in Cheshire' was submitted.
- 10.13 In addition, the four Cheshire authorities also joined a larger bid led by London Borough of Bromley to fund the development of a Counter Fraud Smartphone App. This will provide information to users around the latest frauds and scams as well as providing a medium for reporting suspected fraud and corruption.
- 10.14 We are pleased to confirm that we were recently notified that both of these bids were successful and that work is now in progress to implement our proposals.
- 10.15 The joint Cheshire bid was for funding to appoint a member of staff to carry out the following tasks:
- Development of electronic training materials to increase knowledge and awareness of fraud issues amongst staff and members.
 - Production of other awareness raising tools, for example newsletters and information for the Counter Fraud smart phone app.
 - Proactive analysis of areas of operation identified as being at high risk of fraud. Initially this will focus on procurement fraud and insurance fraud which have been highlighted as significant risks by the Audit Commission in their latest publication of Protecting the Public Purse 2014.
 - Consideration and potential investigation of any anomalies identified in the above analysis.
- 10.16 Warrington Borough Council will take the lead in recruiting and appointing the member of staff under their policies and procedures.

National Fraud Initiative

- 10.17 Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), a biennial exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.
- 10.18 The 2014/15 exercise is the last to be carried out by the Audit Commission prior to closing at the end of March 2015, at which point responsibility will pass to Cabinet Office.
- 10.19 As was the case in previous years, Internal Audit successfully coordinated the extraction and submission of the required data sets which were uploaded in October 2014 and the matches are expected to be released on 29 January 2015.
- 10.20 Once the results have been received, investigations will commence within individual services to determine whether the matches represent a fraud and to recover any overpayments. Internal Audit will have an overview of progress in investigating matches and ensure that where fraud has been identified, appropriate action is taken.
- 10.21 Findings from the NFI exercise will also inform future proactive anti-fraud work and the fraud and corruption risk assessment.

Protecting the Public Purse Fraud Briefing 2014

- 10.22 This briefing is produced by the Audit Commission based upon the results of the annual fraud and corruption survey and provides councils with comparative information of fraud detection levels.
- 10.23 Submission of the survey is a mandatory requirement on all local government bodies and the external auditors confirm that the submissions are reflective of the auditors' knowledge of fraud detection activities at the local authority.
- 10.24 A copy of the briefing, in the form of a series of PowerPoint slides, is attached as Appendix A to this report. However, the key findings are as follows:

| Fraud Type | Cases | Value | Comments |
|--|--------------|--------------|--|
| Housing Benefit and Council Tax Benefit Fraud | | | |
| Cheshire East | 192 | £889,379 | Average £4,632 per case |
| Unitary Authority Average | 162 | £538,412 | Average £3,324 per case |
| Council Tax Discount Fraud | | | |
| Cheshire East | N/R | N/R | Included in the benefit figures detailed above. |
| Unitary Authority Average | 170 | £86,424 | Average £508 per case |
| Blue Badge Fraud | | | |
| Cheshire East | 3 | - | Bigger issue where congestion charges are in effect. |
| Unitary Authority Average | 19 | - | |
| Procurement Fraud | | | |
| Cheshire East | N/R | £7,679 | External Purchase Card fraud. No other fraud detected. |
| Unitary Authority Total | 25 | £824,511 | Average £32,980 per case |
| Insurance Fraud | | | |
| Cheshire East | 0 | 0 | No fraud detected. |
| Unitary Authority Total | 34 | £988,636 | Average £29,078 per case |
| Social Care Fraud | | | |
| Cheshire East | N/R | N/R | Misspent monies recovered but not pursued as fraudulent. |
| Unitary Authority Total | 47 | £731,379 | Average £15,561 per case |
| Internal Fraud | | | |
| Cheshire East | N/R | N/R | A small number of staff investigated for benefit fraud. |
| Unitary Authority Total | 320 | £1.03m | Average £3,220 per case |

- 10.25 These figures confirm that Cheshire East has proactive arrangements in place for the investigation and prosecution of suspected benefit fraud. However, in common with many other authorities, the arrangements for non-benefit fraud are not as well developed.
- 10.26 Our successful bid for Counter Fraud Fund monies described in 10.15 above will help us develop our performance within the areas of non-benefit fraud by provide resource to proactively seek out procurement and insurance fraud along with the development of training materials and awareness raising resources.

- 10.27 With regards to Social Care fraud, Internal Audit reviews of Personal Budgets and Direct Payments are planned for 2015 and will seek assurance as to the robustness of arrangements in place to prevent, detect and investigate fraud in these areas.
- 10.28 In completing the survey it was clear that managers acknowledge fraud as an issue that affects them. However, they require further support in ensuring that they have the means of accurately recording and escalating suspected cases and in raising awareness amongst staff of the warning signs of fraud.

11.0 Access to information

The background papers relating to this report can be inspected by contacting the report writer:

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