

PART A

Report to: Audit Committee
Date of meeting: 27 June 2012
Report of: Alan Power Head of Finance (Shared Services)
Title: Fraud Annual Report 2011/12

1.0 SUMMARY

- 1.1 This report informs Members of the work of the Fraud Section for the financial year 2011/2012 and provides details of updates and developments for the current financial year.
- 1.2 This report also seeks the approval from Members of the revised Anti Fraud and Corruption Strategy (AFCS), Appendix A to this report. The AFCS now includes a new Bribery Act Policy (appendix 4 of the AFCS) . Section 3.23 deals with this.
- 1.3 The second document attached is a revised and harmonised Money Laundering Guidance document. This document does not form part of the Constitution. Section 3.24 deals with this.

2.0 RECOMMENDATIONS

- 2.1 That the report that deals with the work of the Fraud Section for the financial year 2011/12 be noted.
- 2.2 That Members approve the revised Anti Fraud and Corruption Strategy shown at Appendix A to this report.
- 2.3 That Members approve and endorse the Money Laundering Guidance document shown as Appendix B to this report.

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Report approved by: Bernard Clarke, Head of Strategic Finance

3.0 DETAILED PROPOSAL

- 3.1 Housing Benefit and Council Tax Benefit are national welfare benefits administered by the Council on behalf of the Department for Work and Pensions (DWP). A complex legal framework is in place to define who is entitled to benefit and to reduce fraud and error in the system.
- 3.2 The Council is committed to providing an Anti-Fraud Service which is supported by efficient policies, has sanctions for those that offend and reflects legislative changes. Countering fraud is the responsibility of everyone working in or having responsibility for Housing Benefit (HB) and Council Tax Benefit (CTB). It is an integral part of that administration that everyone is aware of the risks. Unfortunately, however good the administration of benefits is, it is always likely fraud will enter the system by deliberate acts.
- 3.3 The Council's expenditure on benefits totalled approximately £40.5m in 2011/12.
- 3.4 The DWP sets the standards which govern the effective and secure delivery of benefits and counter fraud activities. These standards are set out in the Performance and Good Practice Guide. The purpose of the guide is to ensure that counter-fraud activities are properly managed. It is important to focus resources on fraud reduction, to identify, investigate and rectify administrative weakness and to assure Members of the integrity and quality of investigations.
- 3.5 The funding for counter-fraud activities is paid via the general administration grant we receive from the DWP.
- 3.6 The Shared Services Fraud team is co-located in Three Rivers House and in the Annex at Watford BC.
- 3.7 During 2011/12 the Council issued the following sanctions in respect of fraudulent claims;

Action	No of Cases
Administrative penalties	21
Cautions	13
Prosecutions	14

- 3.8 In 2011/12 a total of 292 investigations were completed.
- 3.9 A total of 298 interviews under caution were conducted by officers in 2011/12. (Three Rivers DC and Watford BC). A breakdown between the two Councils is not available. These interviews are digitally recorded interviews in accordance with the Police and Criminal Evidence Act 1984. The majority take place in the Council offices with many conducted in Police stations or other organisations with which we work in collaboration. Generally, those conducted in a Police station are after the customer has been arrested and a search of their premises has been conducted.

3.10 In 2011/12 a total of 470 referrals for investigation were made. Of these, 70 were rejected as they failed their risk assessment. A referral breakdown is shown below;

Information Source	No of Cases
Housing Benefit /Council Tax Section	31
Other internal Council Departments	21
External sources including Police	54
National Fraud Initiative	18
Housing Benefit Matching Service (HBMS)	250
Fraud Hotline and anonymous letters	59
Department for Works and Pensions (DWP)	21
Website referral	16

3.11 In 2011/12 following investigations we identified and raised overpayments in respect of fraudulent claims for benefit as shown below. I have also shown for reference overpayments raised by the DWP and the HMRC as a consequence of our investigations.

Benefit Type	Amount
Housing Benefit	£148,283
Council Tax Benefit	£45,725
Other (DWP, HMRC)	£16,227
Total	£210,235

3.12 The service continues to take part in various data-matching exercises. These include the National Fraud Initiative (NFI) and Housing Benefit Matching Service (HBMS). The NFI is an Audit Commission mandatory exercise that matches data within the Council and between participating bodies to prevent and detect fraud. The key strength of the NFI is that it brings together a wide range of organisations, working together in partnership to tackle fraud. Participants of the NFI include 1300 organisations that include for instance other local authorities, police authorities, NHS bodies etc. Examples of some matches are shown below

Data Match	Possible fraud/error
Housing benefit payments to payroll records	Claiming housing benefit by failing to disclose an income
Payroll records to records of failed asylum seekers and records of expired visas	Obtaining employment while not entitled to work in the UK
Council Tax records to electoral register	A council tax payer gets single person's discount and has not declared other persons living in the property
Payroll records to other payroll records	An employee is working for WBC but has employment elsewhere that is not declared

As you can see from the above sample of matches, these data sets are not confined to just benefit fraud and include for instance pension fraud, blue badge fraud, tenancy fraud and taxi driver licenses, (for example taxi drivers are matched to Asylum Seeker records)

3.13 The Council has continued to work jointly with many organisations including the DWP, the Police, Immigrations and Border Agencies and other local authorities. It is vital we work jointly with all organisations and not in silos.

3.14 Performance indicators are for Watford BC only. I have shown in bold performance indicators for 2011/12 but also included outturn figures for 2010/11 as a comparison

	Target for 2011/12 based on 40% of the shared service target	Outturn 2011/12	Outturn for 2010/11 for comparison purposes
Number of cases closed following investigation	191	288	196
Number of sanctions issued	36	48	36

3.15 The performance indicators for shared services comprise those performance indicators of Watford BC shown above, and those for Three Rivers DC and combined are reported directly to the Shared Services Committee.

3.16 In 2010/11 we have continued to consider the impact of the recession on the continuing risk of fraud. Economic stress can increase the incentive to commit fraud. We have assessed the effectiveness of our current arrangements and focussed on high risk areas which include where customers fail to report changes in circumstances in a timely manner. We have also worked jointly on many cases to reduce fraud and the reputational damage it can cause. We have a specific Anti-Fraud and Anti-Corruption Policy, Housing and Council Tax Fraud Policy, Sanction Policy, Whistleblowing Policy and Bribery Act Policy. We also have a Fraud Response Plan which deals with non-benefit fraud.

3.17 In May 2011, finance shared services were the target of a banking scam. Once alerted we investigated and secured immediate repayment of potential losses. Procedures and controls were also immediately reviewed and improved to reduce the risk of further fraudulent attempts from being successful.

3.18 There were a further 3 cases of corporate fraud investigated excluding the case referred to above. These remaining cases resulted in one dismissal.

Action to Date

3.19 Since April 2012 we have issued a further 11 sanctions.

3.20 There have been a number of Government Strategies released recently which all highlight the increased risks of fraud we face. The latest report released in April 2012 was from the National Fraud Authority (NFA) Fighting Fraud Locally and was specific to local government. The report can be found using the following website address; <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fighting-fraud-locally-strategy/>

This report in summary shows fighting fraud requires more than the adoption of good practice; it also requires a genuine partnership between local and central government and a strategic approach. It recognises that the role of central government is to create the right conditions for local authorities to take the necessary initiatives. This means creating the right incentives to reward councils that reduce fraud; removing barriers to appropriate information-sharing; and providing professional staff with the necessary investigative power. It recommends we review and evaluate our current response to all areas of fraud across housing tenancy, procurement, pay, pensions, recruitment; council tax, grant and blue badge schemes.

The executive summary refers to the unprecedented change to the delivery of local services and the increased risks. The abolition of the Audit Commission and the creation of a single fraud investigation service to tackle benefit fraud will considerably alter current fraud governance arrangements

We are currently reviewing our counter-fraud arrangements and our exposure to fraud risk in areas that include recruitment, better use of data analytics, more partnership working etc

- 3.21 We must continue to monitor the new local council tax scheme that will follow the abolition of council tax benefit in 2013 and consider our position on how we will minimise fraud occurring at the gateway.
- 3.22 In respect of the creation of the Single Fraud Investigation Service (SFIS) the latest information is as follows. From 2013 it is envisaged that we will harmonise some sanction policies in line with that of the DWP. It has been agreed by Ministers that staff will continue to be employed by the respective local authorities but with the remit to investigate all benefits that are administered by WBC, HMRC and the DWP

Anti Fraud and Corruption Policy

- 3.23 The Bribery Act 2010 came into force on 1 July 2011 and has introduced four new offences that deal with Bribery. This has necessitated a review of the AFCS to deal with the new legislation and introduce Appendix 4 to the AFCS. The AFCS is shown as your Appendix A to this report.

In particular Section 7 of the Act introduces a specific corporate offence of failing to prevent a bribe. It is therefore necessary to have in place adequate procedures to mitigate against any risk from this new legislation. The policy will assist in providing appropriate procedures in order to deal with this Bribery Act.

Once agreed training will be provided to Officers and Members by revising the E Learning training module.

Money Laundering Guidance

- 3.24 Next, attached to this report as your Appendix B is the Money Laundering Guidance document.

Money laundering is the process by which the proceeds of crime and the true

ownership of those proceeds are changed so that the proceeds appear to come from a legitimate source.

There is no definitive list of Council activities which might be affected by money laundering but those considered at risk might include for instance payment of Council Tax, NNDR, payment for leases, sales and licenses.

The Council trains all employees who may come into contact with persons engaged in money laundering via the Councils E Learning tool.

The Guidance document provides information on how to report Money Laundering and the responsibilities of the Councils Money Laundering Reporting Officer (MLRO). The MLRO is the Head of Strategic Finance, Bernard Clarke and his deputy in his absence is the Head of Legal and Property, Carol Chen.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Head of Strategic Finance comments that there are no financial implications in this report

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 The Head of Legal and Property Services comments that the legal implications are contained within the report.

Appendices

- A – Anti Fraud and Corruption Strategy
- B – Money Laundering Guidance

Background Papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

Fighting Fraud Locally
Bribery Act 2010

File Reference

- None.