

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 MARCH 2018

COUNTER FRAUD AND ASSOCIATED MATTERS

Report of the Head of Internal Audit

Discussion of Appendices 2 and 3 to this report are likely to include exempt information of the description in paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government [Access to Information] [variation] Order 2006

1.0 PURPOSE OF THE REPORT

- 1.1 To report on the number and type of investigations undertaken by Veritau Limited during 2017/18 to date.
- 1.2 To consider the outcome of the Annual Fraud Risk Assessment and the adequacy of the counter fraud policy framework.

2.0 BACKGROUND

- 2.1 In the current economic climate, all organisations are at an increased risk of fraud and corruption. The true cost of fraud is difficult to quantify but the most recent fraud indicator report¹ suggests that annual UK fraud could be £190 billion. Public sector fraud accounts for £40.4 billion of this total of which approximately £7.8 billion is committed against local government. Every £1 lost to fraud in local government is £1 which is not available to support communities. The main types of local government fraud continue to be housing tenancy, council tax/NNDR, procurement, social care and 'internal' fraud. The recent CIPFA annual fraud and corruption tracker identified adult social care as a significant growth area in terms of the number of investigations conducted. CIPFA also highlighted the lack of specialist resources within local government to tackle fraud with only 38% of councils who responded to the survey having access to a dedicated counter fraud team. A copy of the CIPFA Fraud Tracker 2017 report is attached as **Appendix 1** for information.
- 2.2 Reduced resources mean that local authorities have less capacity to investigate suspected fraud or to undertake proactive counter fraud activities. In addition, responsibility for benefit fraud investigation transferred from local authorities to the Department for Work and Pensions in 2015/16. Many local authorities lost their in-house expertise and no longer have access to qualified and experienced fraud investigators. Whilst Veritau maintains a corporate fraud team, outside London only a limited number of councils have such arrangements in place.

¹ University of Portsmouth//Experian/CCW – Annual Fraud Indicator Report 2017

- 2.3 Fraudsters are also adapting their methods and looking for new opportunities to perpetrate fraud. Local authorities are increasingly being targeted by organised criminals, including individuals and groups based outside the UK. Cross boundary fraud is also an increasing problem, particularly in the larger cities. This is at a time when the wider public sector is facing budget reductions, undergoing significant transformational change and increasing demand for services.
- 2.4 In the last few years there has also been a significant increase in cyber attacks directed at the public sector - recent high profile examples include WannaCry, which affected the NHS and Parliament (WannaCry is a form of ransomware that encrypts system data and demands payment to unlock it). Cyber attacks on local government can result in an inability to provide key services as well as the theft of sensitive data. The National Cyber Security Centre (NCSC) was established in 2016 to provide guidance and expertise in this area. As part of its response to the cyber attacks experienced in May 2017, the NCSC is promoting its national Cyber Aware campaign. The campaign encourages organisations to adopt good cyber security habits such as ensuring that operating systems and software are regularly updated.
- 2.5 The government recently published a new United Kingdom Anti-Corruption Strategy (2017-2022). The Strategy sets out a framework for tackling corruption. The framework is intended to reduce the threat to the UK's national security, increase prosperity and improve public confidence. The Strategy aims to reduce the risk of corruption, improve transparency and increase citizen confidence and trust in public sector services irrespective of whether those services are delivered in-house or by contractors / the voluntary sector. For local government, the objective is to develop *'a strengthened, risk-based response to fraud and corruption.....which makes better use of data and transparency, thereby enhancing public confidence in the integrity of our democratic institutions'*. The specific actions include encouragement to local government to work with the Department for Work and Pensions (DWP) on joint fraud investigations, the piloting of measures to verify the identity of electors, improved protections for whistleblowers and greater use of the new tool developed by the Competition and Markets Authority (CMA) to detect possible bid rigging.
- 2.6 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations (MLR 2017) came into force in June 2017. The new regulations put greater responsibility on organisations to mitigate the risks associated with money laundering by ensuring appropriate policies and risk assessments are in place. Whilst not specifically covered by the regulations, local authorities have a broad responsibility to be aware of the potential for money laundering and criminality in their management of public funds.
- 2.7 The County Council has a good record in maintaining standards of probity and propriety. However, it is also essential that its arrangements for reducing the risk of loss from fraud and corruption remain effective. As a consequence the policy framework is kept under review and updated to reflect best practice as required.

3.0 THE COUNTER FRAUD POLICY FRAMEWORK

Background

- 3.1 The counter fraud policy framework includes the Counter Fraud Strategy, the Whistleblowing Policies and the Anti Money Laundering Policy.
- 3.2 The Counter Fraud Strategy was updated in March 2015 to reflect the guidance contained in the CIPFA Code of Practice on Managing the Risks of Fraud and Corruption. In addition, a new Fraud Prosecution and Loss Recovery policy, setting out the measures that can be taken to recover fraud losses, was approved. A revised Whistleblowing Policy was also approved in March 2016. The related guidance for managers was similarly updated. A new updated national strategy for local government '*Fighting Fraud and Corruption Locally*' is expected to be published this year. In the meantime, no further changes to the existing Counter Fraud Strategy and the related fraud policies are considered necessary.
- 3.3 The Anti Money Laundering Policy was reviewed and updated in March 2017. The Policy is now being reviewed again to reflect the new Money Laundering Regulations. Plans are also in place to complete a new money laundering and terrorist financing risk assessment and to roll-out an e-learning course targeted at those services considered to be most at risk. The updated Anti Money Laundering Policy will be presented to this Committee for approval once the current consultation process is concluded.

4.0 INVESTIGATIONS UNDERTAKEN IN 2017/18

- 4.1 Concerns and allegations of possible fraudulent or corrupt working practices are raised with Veritau via the County Council's whistleblowing arrangements or directly by management and staff. Not all investigations result in sufficient evidence being obtained to support the allegations whilst other concerns prove to be unfounded. However, where evidence is found of fraud or wrongdoing, the following factors are often relevant:
- the need for managers and staff to remain vigilant and to question unusual transactions or patterns of behaviour;
 - the need for staff to protect physical and information assets;
 - the importance of sharing information about possible fraud risks with other councils and/or with other agencies;
 - the importance of pro-active counter fraud measures to help prevent and detect fraud;
 - the need for managers and staff to report concerns to Veritau at the earliest opportunity.
- 4.2 **Appendix 2** provides a summary of the number and type of investigations undertaken by Veritau during 2017/18 to date. Details of the cases investigated in the previous three years are provided for comparison purposes.

5.0 FRAUD RISK ASSESSMENT

5.1 Internal Audit completes an annual Fraud Risk Assessment, designed to identify the activities and areas within the County Council, which present the greatest risk of loss. This Risk Assessment is informed by the history of events and losses suffered by the County Council together with the results of recent investigations into suspected fraud, corruption and other irregularities. National issues and trends are also taken into account. The results of the Assessment are used by:

- management to develop or strengthen existing fraud prevention and detection measures;
- Veritau to further revise the Counter Fraud Policy Framework;
- Veritau to focus future audit and counter fraud work (as set out in the Annual Audit Plan).

5.2 **Appendix 3** provides the outcomes of the 2017/18 Annual Fraud Risk Assessment exercise.

6.0 RECOMMENDATIONS

Members are asked to:

- 6.1 note the investigations carried out by Veritau in 2017/18 to date, and the outcome of the annual Fraud Risk Assessment.
- 6.2 note the planned update to the County Council's Anti Money Laundering Policy and the measures being adopted to strengthen the current anti money laundering arrangements.

M A THOMAS
Head of Internal Audit

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50, South Parade

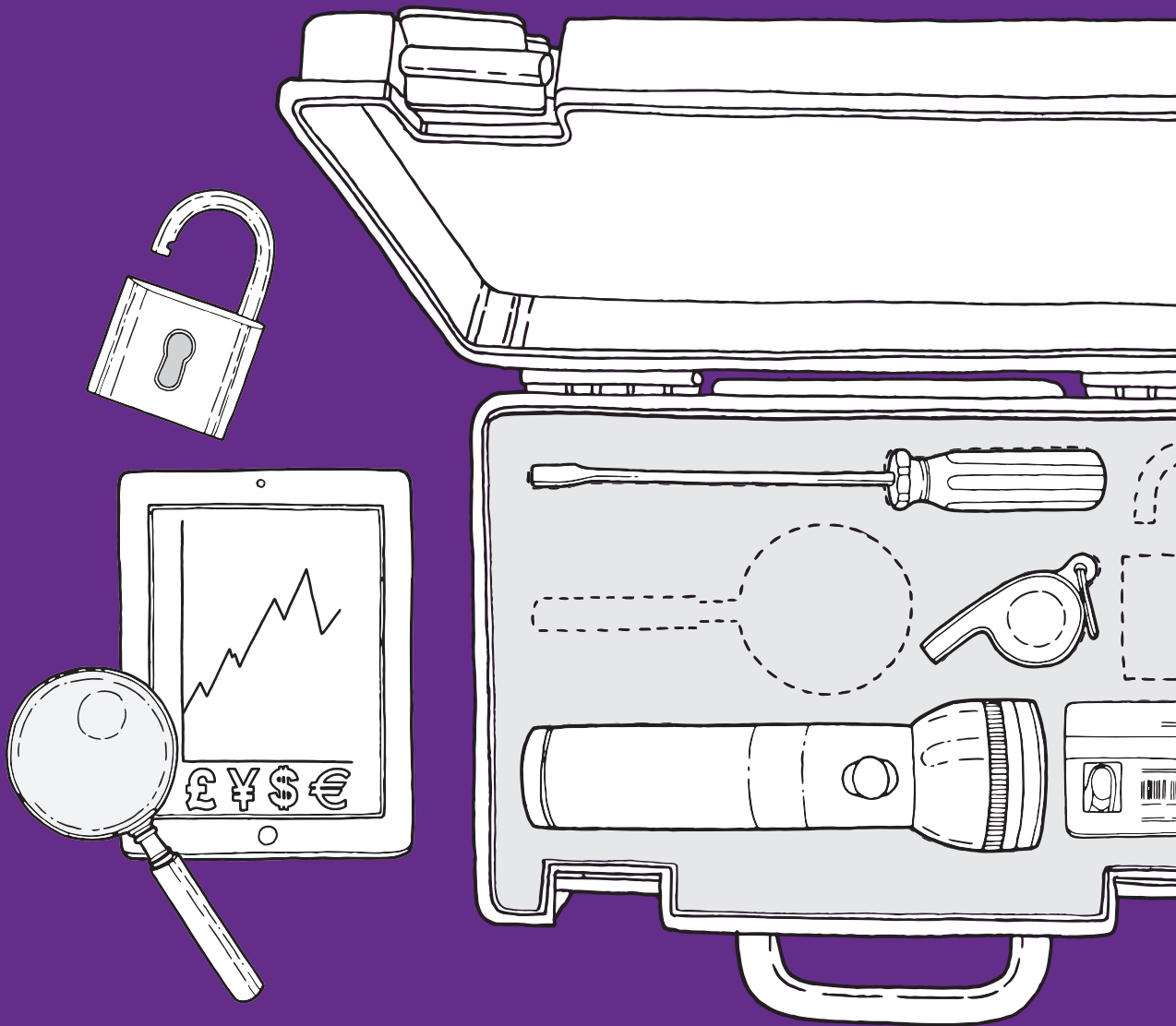
Report prepared and presented by Max Thomas, Head of Internal Audit.

County Hall
Northallerton

13 February 2018

fraud and corruption tracker

Summary Report 2017



**CIPFA COUNTER
FRAUD CENTRE**

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Foreword

Public sector organisations around the UK are clearly committed to fighting fraud and corruption. Through the implementation of initiatives and collaboration with new partners, the public sector understands the importance of counter fraud activity and the contribution it makes to organisations' resilience. The success of counter fraud activities is more than about saving money but covers both the reputational and moral risk for an organisation.

The CIPFA Fraud and Corruption Tracker (CFaCT) survey is part of that story and provides a picture of fraudulent activity in local government and identifies actions that are being taken to combat it.

Supported by organisations such as the National Audit Office (NAO), the National Crime Agency (NCA) and the Local Government Association (LGA), CIPFA draws on the expertise of those within the profession to deliver this annual survey which enables practitioners to focus on trends and emerging risks.

Understanding emerging risks allows authorities to develop appropriate strategies and deploy adequate resources to support the fight against fraud and corruption. This year's survey has shown that adult social care fraud has evolved from an emerging risk to one with which many local authorities are now actively engaged.

This report, which summarises the findings of the most recent CFaCT, not only raises awareness of fraud prevention, detection and deterrence across local government, but will also enable organisations from across the wider public sector to benchmark their responsiveness against others facing similar risks.

This report will:

- help organisations understand where fraud losses could be occurring
- provide a guide to the value of detected and prevented fraud loss
- help senior leaders understand the value of counter fraud activity
- assist operational staff to develop pro-active counter fraud plans.

The survey was supported by:



The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission, and the subsequent transfer of benefit investigations to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions (DWP). The CCFC leads and co-ordinates the fight against fraud and corruption across public services by providing a one-stop-shop for thought leadership, counter fraud tools, resources and training.



Introduction

CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the [Annual Fraud Indicator 2013](#), which provides the last set of government sanctioned estimates, fraud costs the public sector at least £20.6bn annually and of this total, £2.1bn is specifically in local government.

Fraud continues to pose a major financial threat to local authorities and working with partners such as the LGA and the Home Office, we are seeing an emerging picture of resilience and innovation within a sector that is aware of the difficulties it faces and is finding solutions to the challenges.

The third CFaCT was carried out in May 2017 and provides a national picture of fraud, bribery and corruption in local government. It also shows how the sector is dealing with the challenges and helps identify the actions that the sector needs to take to reduce the threat posed by fraudulent activity.

The CFaCT draws on the experience of practitioners and the support and expertise of key stakeholders to show the changing shape of the fraud landscape. It received a spread of results from across all regions and local authorities, enabling us to estimate the total figures for fraud across English, Welsh and Scottish local authorities.

CIPFA estimates that across local authorities more than 75,000 frauds have been detected or prevented in 2016/17 with a total value of £336.2m. The number of fraud cases investigated or prevented dropped in 2017, but the average value per fraud increased from £3,400 to £4,500; the reason for this could be that local authorities are focusing on cases with a higher financial value.

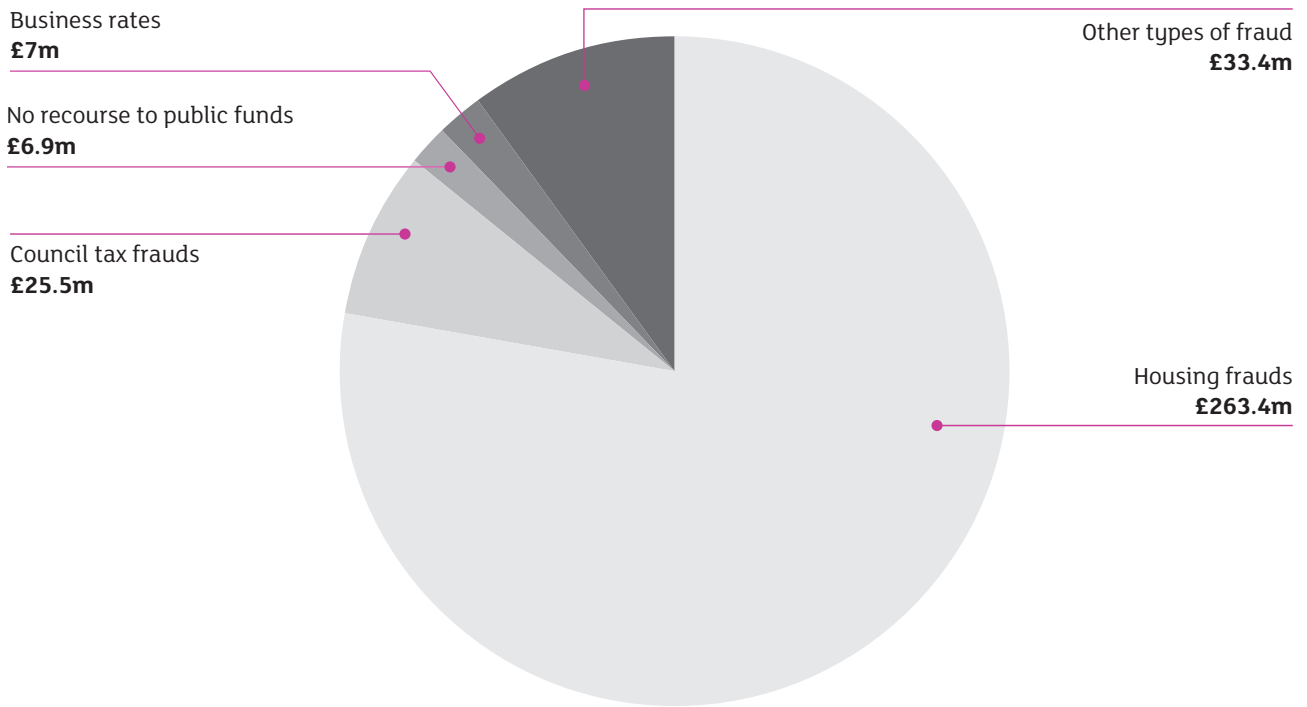
The CFaCT also revealed the following:

- procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas
- adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated compared with £3.0m in 2016
- the highest number of investigations related to council tax fraud (76%) with a value of £25.5m
- the highest value area of fraud is housing with an estimated total of £263.4m
- 38% of organisations who responded have a dedicated counter fraud service.

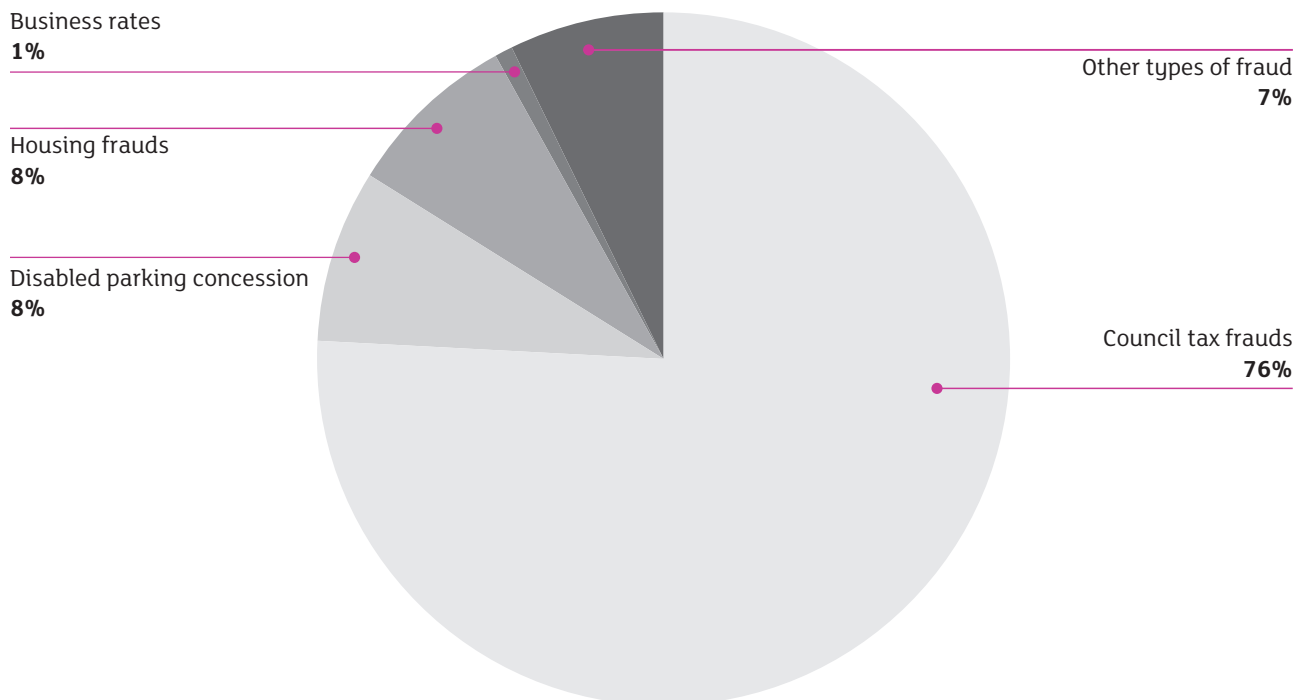
Response Rate



Estimated value of fraud detected



Detected fraud by estimated volume



Cyber crime has a high profile in the media and poses a growing challenge to a sector becoming more digital in terms of service delivery. The threat calls on the shared expertise of fraud and IT teams and it is often unclear who holds responsibility. Respondents to the CFaCT 2017 reported that only three fraud teams (2.3%) were responsible for cyber risk, whereas 106 (80%) reported that IT or the chief information officer held responsibility.

When we started the survey in 2014, three quarters of respondents told us that cyber risk was not included in the corporate plan. This year we see that over half the respondents had carried out a cyber risk assessment in the previous 12 months.

A number of themes and challenges have emerged over the three years that CIPFA has carried out this survey, and these include the following:

- housing has the highest value of all fraud types
- council tax fraud has seen the highest volume of cases
- local authorities benefit from looking forward, preparing for and understanding emerging risks in order to find effective solutions

- barriers to effective data sharing have consistently been stated as impacting on fraud prevention and investigation
- insufficient capacity and a lack of effective fraud risk assessment have proved to be challenges.

In the past three years fraud teams have operated within increasingly restricted budgets while the frauds they look to uncover become more sophisticated. From the figures and responses in the report, fraud teams are responding with positivity and a professional commitment to these challenges. The CFaCT shows that the sector is focusing on certain fraud areas, combining skills and resources and developing shared services.

This report highlights:

- the types of fraud as identified in the CFaCT 2017
- how the fraud and corruption landscape is changing
- what monetary value is lost through fraudulent activity
- how counter fraud activity and prevention improves the public sector budget
- what threats and risks are emerging
- what is being done to prevent fraud.

Recommendations

CIPFA recommends that organisations:

- ensure that cyber security is integral to any new strategy or policy decision, reflecting the [National Cyber Security Strategy 2016 to 2021](#)
- continue to be vigilant and raise awareness of fraud within adult social care
- have a strong counter fraud leadership that understands the importance of involving counter fraud practitioners when devising policy and strategy
- continue to maximise opportunities to share data and to explore innovative use of data within the law
- communicate clearly both internally and externally the role of the fraud team and the importance of the role for both financial and reputational benefit.

Main Types of Fraud

CIPFA has identified the main types of fraud based on the volume of investigations or the value of the financial loss. According to the survey results there are four main areas:

1. council tax
2. housing
3. disabled parking (Blue Badge)
4. adult social care.

Council tax

Council tax fraud has always been the largest reported issue and this is the same in 2017. Council tax is levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland. As the revenue forms part of the income for local authorities, there is a clear correlation between council tax fraud and a reduction in the available budget.

Council tax fraud is split into three areas:

1. council tax single person discount (SPD) – eg where the council tax payer falsely claims to be an eligible single occupier
2. council tax reduction (CTR) support – eg where the council tax payer falsifies household income to qualify for support
3. other types of council tax fraud – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Traditionally an area of high volume/low value, council tax represents the highest number of fraud cases reported by local authorities (76%). However, the total value of the fraud, estimated at £25.5m, only accounts for 7.6% of the estimated value of all detected fraud.

Estimated council tax fraud

	Volume	Value
SPD	50,136	£19.5m
CTR	6,326	£4.8m
Other	674	£1.1m
Total	57,136	£25.5m

When asked about the perceived highest fraud risk areas, SPD was third behind procurement and adult social care.

Perceived highest risk areas



3

Single person discount



2

Procurement



1

Adult social care

Housing and tenancy fraud

Housing and tenancy fraud takes a number of forms including:

- illegal subletting for profit
- providing false information to gain a tenancy
- wrongful tenancy assignment and succession
- failing to use the property as the principal home
- right to buy fraud, for example where circumstances have been misrepresented to qualify for a discount.

Housing is expensive in many parts of the country, the South East in particular, and therefore a low number of cases produces a high value in terms of fraud. However, councils record the income lost to housing fraud according to different values, ranging from a notional cost of replacing a property to the average cost for keeping a family in bed and breakfast accommodation for a year. The National Fraud Initiative (NFI) has historically used a figure of £18,000 to reflect the cost of homeless accommodation over one year, however, this year the NFI has increased that notional figure to £93,000.

The lack of a standard approach makes valuing housing fraud difficult and the approaches vary not only between regions but also between councils. To give some idea of the growth in this area this report has taken the cases reported over the last two years and estimated a figure for all local authorities. Using this methodology, the estimated total value of housing fraud is £263.4m. The number of cases of right to buy fraud has fallen since the 2016 survey but the value has risen to £112m.

Right to buy is the scheme that allows tenants who have lived in their properties for a qualifying period the right to purchase the property at a discount. As housing has become increasingly expensive, especially in London, the value of this type of fraud has seen a rapid increase. The loss is higher in London than in other parts of the country, with an average value per case of £97,000 against £81,000 for the rest of the UK.

Estimated housing fraud

Type of fraud	Volume	Value
Right to buy	1,284	£111.6m
Illegal subletting	1,829	£78.5m
Other*	2,825	£73.3m
Total	5,938	£263.4m

*Other includes tenancy frauds that are neither right to buy nor illegal subletting, and may include succession fraud and false applications.

1,284

the estimated number of right to buy cases investigated or prevented during 2016/17

£263.4m

the estimated total value of housing fraud investigated during 2016/17

Estimated housing fraud



Right to buy
£111.6m



Sublet
£78.5m



Other
£73.3m

Disabled parking (Blue Badge)

The Blue Badge is a Europe-wide permit scheme that gives parking concessions to people with sight impairments or severe walking difficulties. It is locally administered and allows permit holders to park nearer to their destination. Fraud from the misuse of the Blue Badge has decreased since we started the survey. In 2015/16 the estimated number of cases was 7,078, and in 2016/17 this decreased dramatically to 5,751.

There is no standard way to calculate the value of this type of fraud and some authorities, for example in London, place a higher value on the loss than others and invest in more counter fraud resource.

The cost of parking in London results in a higher value to case ratio. From the survey responses we estimate a total of 1,396 cases for London authorities with a total loss value of £3.0m, whereas the estimate for the rest of the

UK is 4,355 cases with a total value less than half that of London at £1.4m.

In the event that Blue Badge misuse is identified, it is often prosecuted and the individual is fined (which is paid to the court). Costs are awarded to the prosecuting authority but these may not meet the full cost of the investigation and prosecution. It is possible that because costs may not be fully redeemed, authorities have little incentive to focus attention on this fraud type. Prosecution, where successful, may serve as a warning and a reflection of public interest.

Estimated Blue Badge fraud

Volume	Value
5,751	£4.3m

Blue Badge prosecution

After an investigation by Warrington Borough Council's counter fraud team, the council prosecuted a resident for using a Blue Badge which did not belong to him, and had in fact expired, to park in designated disabled parking spaces.

The court fined the man £69 in respect of four offences, charged him a victim surcharge of £30, £120 in penalty charge notices and ordered him to pay £100 in court costs.

This case illustrates that any money returned to the council would not be sufficient to cover the investigation and prosecution costs, but taking the case to court would serve to raise awareness and potentially deter others.

Value of Blue Badge fraud in London v rest of UK



£3m
London



£1.4m
rest of the UK

Adult social care

There has been a rise in the number of fraud cases identified in adult social care and the value of the loss has started to increase. This is a trend that we have seen emerging over the last few surveys. In 2015/16 the average value of loss specifically for adult social care was below £10,000 but in 2016/17 we see a rise in value to around £13,000.

Adult social care fraud can happen in a number of ways but the increase in personal budgets gives a greater opportunity for misuse.

Investigations cover cases where:

- direct payments were not being used to pay for the care of the vulnerable adult
- care workers were claiming money for time they had not worked or were spending the allocated budget inappropriately.

Over the past few years many local authorities have funded training and introduced robust controls to mitigate the risk of fraud within personal budgets.

This year's survey also highlighted the links between adult social care fraud and insider fraud. Five percent of adult social care frauds investigated by respondents involved an authority employee.

Estimated adult social care fraud

Type of fraud	Volume	Value
Adult social care personal budget	264	£2.8m
Adult social care (other)*	182	£2.8m
Total	446	£5.6m

*Other includes internal fraud or identity fraud.

Fraud by abuse of position

The counter fraud team at Essex County Council was contacted by a social worker who, after conducting a routine monitoring review, considered that the service user (Ms B) may be paying a relative living at the same address to provide support for her care needs. This had not been agreed by the service area, and was contrary to council policy on employment of personal assistants.

The team identified that Ms B, who was also a social worker employed by the council, had not been paying a carer for many years. Ms B had been receiving direct payments to cover care needs since 2002 and had submitted quarterly returns to evidence spend but this had stopped in 2007, despite being chased. At interview, Ms B advised that she had not spent the direct payment since 2007 but would not provide bank statements to evidence this. Payments from Essex County Council from April 2007 to the date of the suspension amounted to nearly £47,000.

Ms B had just sold her house and was in the process of buying another property. A cheque was returned to the council for £46,887.90.

Ms B was dismissed from the council following disciplinary procedures and the case was referred to the Health Care and Professions Council (HCPC). An HCPC hearing resulted in a caution being placed on her registration for three years.

The case was also referred to Essex Police, who confirmed that Ms B had regularly used the direct payment as her personal monies. As a result Ms B was charged with theft of £46,887.90 and pleaded guilty to the charge. She received a suspended 16 month sentence, costs of £340 and a six month curfew.

Other Types of Fraud

Fraud covers a substantial number of areas and within organisations these vary in importance. This part of the report looks at the responses to some of these that did not appear as major types of fraud within the national picture but are important to individual organisations. Our results looked at the following fraud types in this category:

- business rates
- insurance
- procurement
- welfare assistance and no recourse to public funds
- payroll, expenses, recruitment and pensions
- economic and voluntary sector (grant fraud)
- manipulation of data (financial or non-financial) and mandate fraud.

Business rates

Business rates have received considerable publicity and are a key cost for those who have to pay the tax. There is also the political sensitivity felt by politicians wanting to maximise an environment for economic growth and business development.

Business rate fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to differentiate between evasion and avoidance. Business rate fraud can include the falsification of circumstances to gain exemptions and discounts.

Business rates represented 0.5% of the total number of frauds reported in 2015/16 and had risen to 0.9% in 2016/17. The estimated total value of the fraud loss has increased from £4.8m in 2015/16 to £7.0m in 2016/17.

Estimated business rate fraud

Volume	Value
662	£7.0m

Insurance fraud

This fraud includes any false insurance claim made against an organisation or an organisation's insurers. Within the insurance fraud category, there were six cases of organised crime.

Authorities should ensure that counter fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigation into alleged frauds.

The total estimated value of loss in 2016/17 is £5.1m – a decrease from £7.0m in 2015/16. The number of frauds detected or prevented fell but the average value increased to £13,800.

Considerable work has been done in the area of insurance fraud and insurance companies are working with organisations to develop new ways to identify fraud and abuse within the system.

Estimated insurance claim fraud

Volume	Value
371	£5.1m

Procurement fraud

Procurement fraud can occur throughout the procurement cycle, from purchasing through to the service delivered and payments. In last year's survey procurement was perceived as one of the greatest fraud risks, with housing procurement being of particular concern. The number of procurement fraud cases reported in 2015/16 was five times more than in 2014/15.

In 2016/17 there were an estimated 197 prevented or detected frauds with an estimated value of £6.2m, compared with 427 cases in 2015/16 with a total value of £5.7m; this drop in the number of cases but increase in value could indicate that higher level frauds are being discovered. However, procurement fraud takes place in a constantly changing environment and can occur anywhere throughout the procurement cycle. There can be sizeable difficulties in measuring the value of procurement fraud since it is seldom the total value of the contract but an element of the contract involved. The value of the loss, especially post award, can be as hard to measure but equally significant.

Estimates suggest that nearly 40% of all fraud committed against local authorities concerns abuse of the procurement cycle.¹ The London Borough of Hackney's innovative approach to this problem was to create a multifaceted and specialist procurement team within the audit and anti-fraud division. This has allowed the authority to carry out complex and often lengthy investigations which have resulted in cost savings as well as greater assurance across the organisation.

The [Fighting Fraud and Corruption Locally Strategy 2016–2019](#) recommends that organisations create a procurement fraud map and define the stages at which procurement fraud can happen in a local authority. This would highlight low, medium and high potential risks and inform risk awareness training for the future.

The Competition and Markets Authority (CMA) is working with the public sector to identify areas of higher risk within procurement. The CMA has produced a free online tool that studies the data fed in against bidder behaviour and price patterns. It then flags areas where fraud **could** be a possibility and should be investigated.

No recourse to public funds

 **342**
Number of cases

 **£20,000**
Average value

Estimated procurement fraud

Volume	Value
197	£6.2m

For more information see also [Managing the Risk of Procurement Fraud](#) (CIPFA/LGA, 2015).

Welfare assistance and no recourse to public funds

Local welfare assistance was set up to help the poorest residents to deal with short-term costs caused by fire, flood or injury. The assistance is not a statutory duty and with money being limited many authorities have cut the service dramatically or dropped it completely. Awards are discretionary and may come as either a crisis payment or some form of support payment.

In 2016, the estimated number of cases was 610 but this has declined in the past year to an estimated 103.

While 'no recourse to public funds' fraud presents a significant fraud risk to local authorities, it is primarily to be found in London, southeast England and larger metropolitan boroughs. London had 90% of reported cases in this year's survey. This type of fraud includes claimants using false documents to obtain benefits.

Over the past 12 months the number of cases in this area has increased, rising from 255 in 2015/16 to 342 in 2016/17. However, the average value of the fraud has fallen to £20,000, resulting in an overall decrease in total loss from £8.2m to £6.9m.

Estimated fraud in welfare assistance and no recourse to public funds

Type of fraud	Volume	Value
Welfare assistance	103	£0.3m
No recourse to public funds	342	£6.9m

¹ www.local.gov.uk/sites/default/files/documents/managing-risk-procurement-13a.pdf

Economic and voluntary sector (grant fraud)

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation. As funds become more limited for this type of support it is even more important for fraud teams to be aware of the risks within this area.

Although only 17 actual cases of grant fraud were reported in the 2017 survey, the average value of loss was £39,000 per fraud.

Payroll, expenses, recruitment and pensions

If we combine all the estimated results for these four areas the total value of the fraud loss is an estimated £2.1m.

It can be very difficult, however, to measure the cost of these frauds because the implications for some do not necessarily carry a monetary value, such as reputational damage or investigating the motives behind the fraud. As a result some organisations can be less keen to investigate or report investigations in these areas.

Employees and those working inside an authority can abuse council processes for financial gain. Respondents reported that 40% of payroll fraud cases investigated or prevented during the year involved insider fraud.

Recruitment fraud is an interesting area and often one where it is difficult to establish a value of fraud loss. It would be impossible to put a price on the damage that could be inflicted on an organisation if it were to employ a member of staff who had falsified their qualifications. Without a strong risk assessment and additional investigation, an appointment may be made that would have considerable adverse implications.

40%

of payroll cases involved insider fraud

Estimated payroll, expenses, recruitment and pension fraud

Type of fraud	Volume	Value
Payroll	248	£1.0m
Expenses	75	£0.1m
Recruitment	46	£0.2m
Pension	228	£0.8m
Total	597	£2.1m

Manipulation of data (financial or non-financial) and mandate fraud

The fraud most commonly carried out within the manipulation of data category relates to employees changing data in order to show a better performance than actually occurred or staff taking data from the organisation.

[Action Fraud](#) states that:

Mandate fraud is when someone gets you to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation you make regular payments to, for example a subscription or membership organisation or your business supplier.

CIPFA estimates that across the UK manipulation of data fraud has more than doubled from 24 in 2015/16 to 57 in 2016/17. Mandate fraud has also increased from 188 in 2015/16 to 325 in 2016/17.

Procedures must be in place to ensure that staff are aware of this type of fraud and act accordingly by checking information. Advice from organisations such as Action Fraud can help to ensure that the risk is reduced, but from the results of our survey organisations are clearly still experiencing loss. Removing data may not result in financial loss but can result in reputational damage. Mandate fraud may also not be reported because of reputational repercussions.

90%

the percentage of respondents who have a counter fraud plan in place

Serious and organised crime

This year's survey again included a question (requested by the Home Office) on serious and organised crime in order to help establish how it is being tackled by local authorities.

Organised crime groups are often involved in complicated and large-scale fraudulent activities which cross more than one boundary. Such activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The CFaCT 2017 identified 26 cases of serious and organised crime, and the responses indicate that organisations share a great deal of data both internally and externally. In addition, of the organisations that responded, 23% identified serious and organised crime risks within their organisation's risk register.

91%

the percentage of respondents who share data externally

Whistleblowing

Whistleblowing was strongly evidenced again this year, with 60% of organisations surveyed saying that they annually reviewed their whistleblowing arrangements in line with the [PAS 1998:2008 Whistleblowing Arrangements Code of Practice](#).

Of those questioned 85% confirmed that staff and the public had access to a helpdesk and 72% said that the helpline conformed to the PAS 1998:2008.

Respondents reported a total of 686 whistleblowing cases, made in line with PAS 1998:2008. This represents disclosures in all areas, not just with regard to suspected fraudulent behaviours. Effective whistleblowing allows

staff or the public to raise concerns about a criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.

Counter Fraud Resources

Increased delivery with reduced resources is the context in which fraud teams are operating. It is therefore unsurprising that the proportion using a shared service has increased from 10% to 14%. This approach has gained popularity in some areas as a method of allowing smaller organisations to provide a service that is both resilient and cost effective.

For those organisations that are not opting to run shared services, the CFaCT 2017 showed a flatlining of counter fraud staff resources until 2019. This position would appear to be a change of intention from 2015, when some respondents had hoped to increase their staff numbers. We did however see a slight increase in the number of organisations which have qualified financial investigators available in-house, from 27% in 2016 to 34% in 2017, but fraud services continue to be stretched.

While it is not essential for all organisations to have a dedicated counter fraud function, CIPFA continues to reinforce the importance of organisations having a fraud response plan that enables allegations of fraud to be investigated effectively by skilled and professional investigators.

Hertfordshire shared counter fraud service

In 2015, six councils in Hertfordshire, including the county council, established a shared service to improve the prevention of fraud and corruption. At the centre of the plan was the requirement to have a more robust and resilient service where data was exchanged and best practice shared. The commercial nature of the service also required a return on investment and the opportunity to create new income streams.

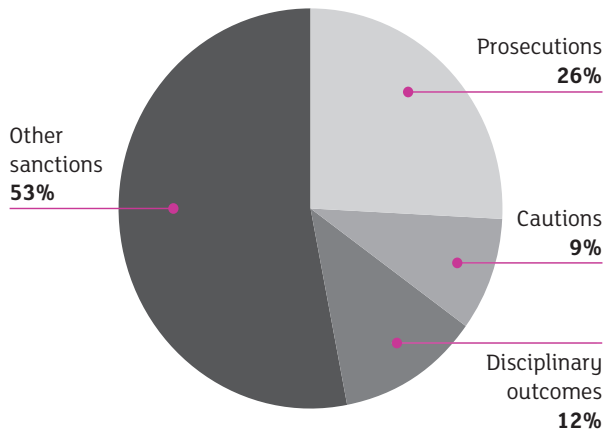
The combined service has provided flexibility and a significant return on investment for those involved, and the reduction in duplication across common policy approaches has resulted in a more efficient use of resources.

Sanctions

The CFaCT 2017 allows us to explore the sanctions being used and indicates the following:

- 614 prosecutions were completed in 2016/17, and of the prosecutions, 22 involved insider fraud – all 22 cases were found guilty
- there was an average of four prosecutions per survey respondent
- the share of other sanctions used increased from 45% to 53% from 2016 to 2017
- the share of cautions as a proportion of all sanctions dropped from 22% to 9% between 2016 and 2017.

Outcome of sanctions



The chart indicates that:

- prosecutions include both in-house and CPS prosecutions
- cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance
- disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team disciplinary action is undertaken, or where a subject resigns during the disciplinary process
- other sanctions include the imposition of fines or other penalties by the organisation.

Fighting Fraud and Corruption Locally

The [Fighting Fraud and Corruption Locally Strategy 2016–2019](#) (FFCL) was developed by local authorities and counter fraud experts and is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

The strategy is available for councils to use freely so that everyone can benefit from shared good practice. It provides advice on how to lead and communicate counter fraud and corruption activity for the greatest impact as well as covering resource management and investment in counter fraud operations.

As in previous surveys, the FFCL Board put forward specific statements to be included to help measure the effectiveness of the initiatives in the strategy and the responses are reflected in the diagram below. The more confident respondents are about the way fraud is dealt with in their organisation the higher they marked the statement, low scores are at the centre of the diagram.

Counter fraud controls by country



Over the past three years, local authorities have identified capacity, data sharing and fraud risk management as issues that need to be addressed in order to effectively tackle fraud and corruption. The FFCL's 34-point checklist is a good starting point as it provides a comprehensive framework to address these concerns.

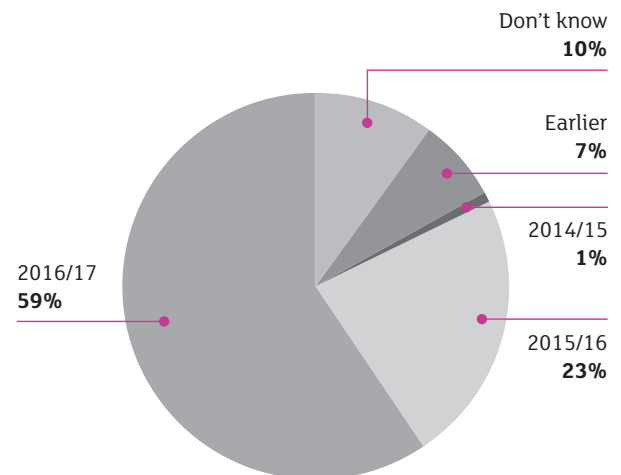
The FFCL Strategy recommends that:

There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.

By producing a plan and having resources that are agreed by the leadership team, management is able to see gaps in capacity and identify areas of risk which enables them to make effective strategic decisions.

In fact, an area of improvement has been the rise in organisations that have a counter fraud and corruption plan. Last year, 11% did not have a plan or did not know if they had one, and only 62% had the plan approved in the last 12 months. Of those who responded to this year's survey, 90% have a counter fraud and corruption plan in place (10% did not know) and 74% had carried out a corporate fraud assessment in the last 12 months. Some respondents reported that an assessment was pending.

When did you last have your counter fraud and corruption plan approved?



Acknowledgements

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- Public Concern at Work
- Solace

Appendix 1: Estimates and Fraud Types

The table below shows the types of fraud reported in the survey, the estimated number of cases reported during 2016/17 and an estimate of the total value of these fraud cases. The methodology used in the estimation is described in Appendix 2.

Types of fraud	Fraud cases	Value	Average
Council tax	57,136	£25.5m	£400
Housing	5,939	£263.4m	£44,300
Disabled parking concession (Blue Badge)	5,751	£4.3m	£800
Business rates	662	£7.0m	£10,600
Adult social care	446	£5.6m	£12,500
Insurance claims	371	£5.1m	£13,800
No recourse to public funds	342	£6.9m	£20,200
Mandate	325	£1.7m	£5,200
Schools (excluding transport)	258	£0.5m	£2,000
Payroll	248	£1.0m	£4,100
Pensions	228	£0.8m	£3,400
Procurement	197	£6.2m	£31,300
Debt	142	£0.3m	£2,400
Welfare assistance	103	£0.3m	£3,000
Expenses	75	£0.1m	£1,900
Children's social care	59	£0.8m	£13,800
Manipulation of data	57	na	na
Recruitment	46	£0.2m	£3,700
Economic and voluntary sector support	39	£1.5m	£38,800
School transport	19	£0.2m	£12,300
Investments	0	£0.0m	na
Other	2,768	£4.7m	£1,700
Total	75,212	£336.2m	£4,500

Appendix 2: Research Methodology

This year's CFaCT results are based on responses from 133 English, Welsh and Scottish local authorities. With this response rate, we are able to calculate an estimated total volume and value of fraud for all local authorities in England, Wales and Scotland.

For all non-responding authorities, missing values are calculated according to the size of the authority. For each type of fraud, an appropriate measure of authority size applicable to that authority has been selected. For example, local authority housing stock is used as the basis for the estimation of housing frauds. From the responses, the number of cases per unit of the size measure is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value.

As an illustration, if the number of housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000, then the total estimated value of fraud for that authority is £1.0m. The figures that are presented in this report are estimated according to this methodology. The 2015/16 estimates have also been restated for the purpose of comparison.



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

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