

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 20th SEPTEMBER 2011

2010/11 ANNUAL REPORT - CORPORATE ANTI-FRAUD & CORRUPTION ACTIVITY

REPORT OF THE CHIEF FINANCIAL OFFICER

1. PURPOSE

- 1.1 For the Audit Committee to consider the 2010/11 Annual Report on Corporate Anti-Fraud and Corruption activity.

2. RECOMMENDATIONS

- 2.1 That the Audit Committee notes the 2010/11 Annual Report on Corporate Anti-Fraud and Corruption activity.

3. SUMMARY

- 3.1 The Council is committed to high standards of Corporate Governance and has a set of effective procedures in place to support this. These procedures include the Anti-Fraud & Corruption Policy.
- 3.2 The terms of reference of the Audit Committee include:
"14. To approve the Anti-Fraud and Corruption Policy for adoption by the Council and to monitor its operation. The policy will be reviewed it at least once every two years."
- 3.3 This is the third annual report setting out the Corporate Anti-Fraud and Corruption activity for 2010/11 to enable the Audit Committee to monitor the policies operation.

4. PREVIOUS MINUTES

- 4.1 Audit Committee 28th July 2009
Audit Committee 27th July 2010

5. INFORMATION

- 5.1 The Anti-Fraud and Corruption Policy was reviewed, updated and agreed by the Audit Committee on 22nd March 2011 and was approved by Council on 23rd June 2011. The policy supports one of the key dimensions of good Corporate Governance – Standards of Conduct. The Council aims to ensure that all those associated with it maintain high standards of ethics and conduct in public life contributing to good corporate governance.
- 5.2 Nationally due to the economic climate there are indications from the Police that fraudulent activity has and will continue to increase during the recession. Therefore it is important that the Council continues to maintain its vigilance in respect to Council services and the Community.
- 5.3 This report contains information about counter fraud and investigation activities within Benefits, Internal Audit and Trading Standards, including Licensing. The Committee

should note that the Councils procedures and controls are designed to minimise the opportunity for fraud and to highlight where possible activity may have occurred.

5.4 Members and officers regularly receive information on their responsibilities in respect to the use of public money and the prevention and detection of fraud. They provide information for investigation by appropriately trained and experienced officers within the Council (and by the Police or other external party when required).

6. BENEFITS

6.1 The benefit caseload has increased again over the last 12 months, from 18,932 (live cases) in March 2010 to 19,460 in March 2011. This represents a 2.8% increase over the year. The caseload has not increased at such a dramatic rate as the previous year; however there have been signs of a more steady growth in the latter months of 2011/12.

6.2 The Council has followed the Department for Work & Pensions (DWP) lead in “securing the gateway”. The DWP aim at ‘getting it right, and keeping it right’ i.e. ensuring only those properly entitled are granted and paid benefit. To this end the majority of new benefit claimants who make a claim direct to the Council are either visited in their home or seen by a Benefit Officer at the Council’s First Point facility. This ensures the best possible service for the customer, makes sure the information obtained is accurate, makes the customer aware of their responsibilities, and ensures performance targets are met.

6.3 Referrals to the Benefits Investigation team come from various sources. The table below show the sources, number and percentage of total. This is a very slight decrease from 2009/10 (1309).

Source	Number of Referrals	Percentage of Total
National Fraud Initiative 2010/11	1	0.08
Named Letter	3	0.23
Other Local Authority	5	0.39
Anonymous letter	62	4.80
Anonymous telephone call	375	29.00
Member of staff	314	24.28
HBMS	98	7.58
DWP	170	13.15
Police	28	2.17
Fraud drive	45	3.48
Landlord	49	3.79
Internet/email	84	6.49
Shropshire Star/Newspaper	1	0.08
Other Local Authority Department	10	0.77
Named Member Of Public	28	2.17
National Fraud Initiative	18	1.39
Other Government Agency	2	0.15
Total Referrals	1293	100.00

6.4 Benefits Data Matching

6.4.1 In 2010/11 there were 83 investigations closed which had been opened due to a Housing Benefit Matching Service (HBMS) referral. Of these 49 resulted in a positive outcome i.e. benefit was affected / fraud found. There were 98 referrals as a result of a HBMS match within 2010/11 – some of these files were still open at the end of 2010/11.

6.4.2 Unfortunately Benefit fraud is not just external to the Council. The Council now undertakes internal checks in respect to monthly data matches with all new starters. This ensures all changes in circumstances have been declared. During the last year we have prosecuted one person who was also an employee.

6.5 Cases Investigated

6.5.1 The Benefit Investigation Team received 1,293 referrals. Using a risk based approach 429 of these cases were taken on for investigation. Within 2010/11 383 investigations were closed and of these 207 proved positive. Of this total, 86 cases received a formal sanction:

- Prosecutions – 37
- Administrative Penalties – 11
- Formal Cautions - 38

6.5.2 Although no credit is given, sanctions are also applied to partners/landlords/employers where it can be demonstrated that they were complicit in the fraud. As a result, sanctions were also applied accordingly:

- Prosecutions - 1
- Administrative Penalties - nil
- Formal Cautions - 5

6.5.3 For the prosecutions fines of £705 were imposed and costs of £3,950 awarded – please note that some of these are attributable to joint working with Department for Work and Pensions.

6.5.4 Overpayments detected in the above sanction cases totalled £422,565.50.

6.6 Benefit Fraud Sanction & Prosecution Policy

6.6.1 The benefit fraud policy was rewritten and approved by Cabinet in January 2010. One of the aims of this refreshed policy was to give much clearer guidance to decision makers on a wider range of factors that they should consider when deciding which sanction to apply to a fraud case, as well as streamlining the decision making process to speed up the time taken for sanction authorisation to be granted.

7. INTERNAL AUDIT

7.1 Internal Audit has an important role in the investigation of suspected internal fraud and assisting managers in ensuring they have appropriate systems and controls in place that are designed to prevent or reduce the opportunity for fraud.

- 7.2 Annually days are allocated within the risk based audit plan to undertake proactive fraud work and work in areas where previous frauds have occurred. This work is informed by a Fraud Risk register. In addition to good practice and local internal intelligence, this register was informed through being part of the West Midlands Fraud Group¹. A summary of the fraud risk areas and audit action taken during 2010/11 is attached as Appendix A for your information. For 2010/11 the planned proactive days were 40 days and actual 32 days due to a reduction in overall resources. In addition where possible the proactive activities were included within other planned audits.
- 7.3 In addition to proactive fraud work and continuous advice and guidance to managers, Internal Audit also has potentially irregular activities reported to them throughout the year for investigation. Appendix B outlines in summary investigations into potential irregularities undertaken during 2010/11. The majority of investigations undertaken result in improvements to procedures, controls and training and awareness for employees.
- 7.4 The number of days work undertaken on suspected fraudulent activities during 2010/11 was 95 days. These days are taken from contingency (130) or by re-allocating planned audit time.

7.5 National Fraud Initiative (NFI)

- 7.5.1 The Audit Commission's NFI exercise is part of Central Government's national recognition that taxpayers have a right to expect public bodies to put in place every possible measure to protect their money from fraud. The national public bodies included in this exercise are police authorities, local probation boards, fire and rescue authorities and all upper tier and districts councils.
- 7.5.2 The council has a statutory responsibility to provide data to the Audit Commission for the prevention and detection of fraud as part of the NFI. NFI is an exercise that matches electronic data within and between audited bodies to prevent and detect fraud.
- 7.5.3 The Council provides a number of datasets to specifications set by the Audit Commission. The Council extracted data as at 4 October 2010 from its systems and transferred this data securely to the Audit Commission before the end of October 2010. This data included:
- Benefits Data (Data provided to Audit Commission by the DWP)
 - Blue Badges
 - Payroll
 - Insurance Claimants (Data provided by the Councils insurers)
 - Creditors
 - Student Loans (Data provided and investigated by Shropshire County Council)
 - Private Supported Care Home Residents
 - Transport Passes and Permits (includes residents parking and concessionary travel)
 - Licences – Market trader/operator, taxi drivers and personal licences to supply alcohol.

¹ Specialist fraud networking and training group of West Midlands metropolitan authorities and unitary authorities (the unitary authorities include Stoke, Nottingham, Derby and Leicester)

- 7.5.4 The Information Governance and Risk Team Leader is the nominated 'Key Contact' for the authority. It is the Key Contacts responsibility to ensure the appropriate datasets are sent to the Audit Commission and then when data match information is provided (January 2011) to provide a co-ordination role to ensure service areas are investigating matched records in their areas in compliance with Audit Commission guidelines.
- 7.5.5 Work on NFI is ongoing with a deadline set for completing this work by the end of December 2011. The Key Contact has arranged a number of progress meetings with service areas to ensure adequate progress is being achieved.

7.5 Training & Awareness

- 7.6.1 The Council ensures that both Members and Officers are aware of their responsibilities in respect to the Council's Anti-Fraud and Corruption policy. In addition a member Information Seminars on Governance, Risk and Fraud was held in November 2010.
- 7.6.2 All new staff within Revenues & Benefits (R&B) (as part of their induction) receives in depth Fraud Awareness training from the Corporate Training Team. In addition, an annual refresher is given to existing staff. Out of the fraud referrals received in 2010/11, 314 came from members of staff. From these staff referrals 123 investigations were opened and 51 investigations referred by staff achieved a positive outcome.
- 7.6.3 For officers there is the Code of Conduct for Employees and High Standards Cards which are included in induction sessions and personal information folder. A Booklet has been provided to Managers and a leaflet to all employees. Copies of these are available on the intranet. A specific module "Managing Ethically" has been developed and incorporated into the Team Leader Management Development Programme which includes managers and employees responsibilities from within the Anti-Fraud & Corruption Policy and the Speak Up policy.

7.7 Publicity

- 7.7.1 As per the policy publicity of cases is important as a deterrent. The Benefit Fraud Team and Trading Standards use PR to issue press releases about upcoming notable cases. Often the press then follow up with the headlines about the action/fine. The press releases are also published on the Council's website.
- 7.7.2 Internally cases of note are included within the Revenues and Benefits weekly team brief notes and also included in the quarterly Service Area report. These are issued to all R&B staff.
- 7.7.3 Where allegations of internal frauds have been investigated and procedures and controls are changed the lessons learnt are shared across the Council through the enews, in management meetings and in audit recommendations in other areas.

8. TRADING STANDARDS & LICENSING

- 8.1 The Trading Standards and Licensing services of the Council play a significant role in delivering the Council's response to business related fraud in the borough. The majority of the responses are based around statutory responsibilities refined to provide effective detection and countermeasures in respect to fraud. These services are not restricted as to whom its officers may investigate, and are constrained only by the limitations of the statute under which an investigation is being conducted. As such investigations may

involve Council officers, Members, suppliers to the Council and the business activities of the Council itself.

8.2 Officers of these services have access to specific legal, procedural and operational training to enable effective discharge of their responsibilities.

8.3 Staff undertake extensive professional training and mentoring before being permitted to commence enforcement duties, and have access to a range of professional competency training facilities through CEnTSA (Central England Trading Standards Authorities) and the Institute of Licensing (IOL) and their regional professional networks.

8.4 Anti Fraud responsibilities

8.4.1 Specific and identifiable responsibilities falling to the Trading Standards and Licensing within the Public Protection Service Delivery Unit, to combat fraud in the community include:

For the Licensing Service:

- **Street trader consents**
Prevention and detection of the illegal and highly lucrative transfer of street trader consents ('burger wars')
- **Taxi licensing**
Ensuring the correct vehicle, correctly insured and driven by the licensed driver.
- **National Insurance Fraud Network.**
Partnership working to detect and report vehicle accident patterns.
- **Scrap metal dealers licensing.**
Joint working with police to detect illegal trading in stolen vehicles through scrap metal dealers and motor salvage operators.
- **National Fraud Initiative.**
Provision of information for the purposes of detection of benefit and other related frauds.
- **Intelligence Data System.**
New data system linked to DVLA for the detection of driving licence frauds.
- **Gambling Act enforcement**
Gaming establishments, registration of gaming machines, enforcement of 'amusement machines licensing duty certificates' in respect of the avoidance of taxation payments.
- **Money Laundering.**
Taxis, private hire vehicles, gaming machines, as a means of converting large quantities of cash.
- **Street Collections, Charity collections.**
Identification, detection and enforcement of fraudulent collections

In 2010/11 the Licensing Service investigated a number of fraudulent activities including an unlicensed street trader and off sales premise and unlawful plying for hire.

For the Trading Standards Service:

Trading Standards has responsibility for enforcing a wide range of legislation that supports the authority's anti fraud responsibilities, and could be considered under the following broad headings:

- **Goods and services misdescriptions legislation.**
cover such things as food (passing-off), property (houses etc. misdescriptions) vehicles, animals, professional, personal and manual services.
- **Intellectual Property crime**
Copyright, Trade marks
- **Consumer protection against unfair trading legislation**
Wide ranging and subject unspecific legislation to keep pace with constantly changing fraudulent practices.
- **Consumer Credit**
Credit, debt, finance agreements, misleading advertising
- **Cattle identification legislation**
To prevent fraudulent transfer to limit disease spread.
- **Weights and Measures**
Misrepresentation of quantity of goods supplied.

8.4.2 Intelligence shows that there is a 20% increase in rogue trader complaints across the Midlands and this is mirrored within the borough. These fraudsters specifically target vulnerable and older people, carry out unnecessary or misrepresent home improvement work and as a result con them out of thousands of pounds. This area of fraud remains a priority for Trading Standards for 2011-12.

8.4.3 The team also has a proactive role in educating consumers and businesses by raising awareness of rogue traders, counterfeiters and making consumers better able to distinguish the rogues from the reputable businesses and increasing consumer confidence.

8.5 Trading Standards Regional Initiatives

Scambusters

8.5.1 Dedicated Trading Standards officers working alongside officers from the Police, HM Revenue & Customs and other enforcement agencies. They work across local authority boundaries focusing on the hardest to tackle scams and rogue traders that set out to con people out of their money/assets.

8.5.2 This regional approach has demonstrated that targeted, proactive and intelligence led enforcement works. There has been much closer co-operation and data sharing between Trading Standards and other agencies, partly due to the level of criminality the teams have investigated.

Examples of the types of issues that have been targeted are:

- Doorstep crime
- Deceptive selling techniques
- Home working and other 'get rich quick' schemes

- o Sale of dangerous and substandard furniture
- o 'Cowboy' builders doing shoddy and unnecessary work
- o Large scale organised counterfeiting operations

8.6 Loan Shark Team

8.6.1 A loan shark is an unlicensed moneylender. Licensed moneylenders are regulated by the Office of Fair Trading (OFT) and must follow the OFT's codes of practice.

Because they're not licensed, loan sharks operate outside the law. If you borrow from them it's likely you'll:

- o get a loan on very bad terms
- o pay an extortionate rate of interest
- o be harassed if you get behind with your repayments
- o be pressured into borrowing more from them to repay one debt with another

8.6.2 The role of this team is to identify, investigate and if necessary prosecute loan sharks and to work with victims to secure a satisfactory financial outcome. It also has a proactive role to educate and raise awareness in local communities of the pitfalls of loans harks and promotes alternative sources of obtaining small loans and savings plans.

9. Challenges for 2011/12

- Reduced resources for the provision of Council services and therefore reduction in control and supervision and therefore potential increased opportunities for internal fraud
- Reduced resources for the provision of Council services, including Governance and therefore reduction in fraud awareness and opportunities for proactive work
- Impact of the continued recession and economic climate on the potential incidence of fraud
- The inevitable increase in the benefit caseload

10. OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	The Anti-Fraud & Corruption policy operates within Equalities legislation and the Council's associated policies. Any investigations follow legal requirements and proper procedures to ensure that equality and diversity requirements are met.
Environmental Impact	None
Legal Implications	Regulatory and enforcement teams throughout the Council (including internal audit) have powers and responsibilities set out in statute and regulation to detect, investigate and take enforcement action in relation to fraud and corruption. Such roles and responsibilities also include information sharing which is referred to in this report. When undertaking these actions all relevant statutory requirements need to be adhered to.
Links with Corporate Priorities	The policy supports all Corporate Priorities and good Corporate Governance demonstrating the Council's desire to ensure sound conduct and ethical procedures for all those associated with the Council and service delivery. Monitoring the policy provides the opportunity to identify if there are any changes required or additional areas of activity.
Financial Implications	None as all current activity is met from within existing budgets.

Opportunities and Risks	Having a policy which sets out the Council's anti-fraud and corruption culture and associated procedures assists in the management of the risk of fraud and corruption against the Council.
Ward Implications	Borough wide implications.

10. BACKGROUND PAPERS

Corporate Anti-Fraud and Corruption Policy 2011
Speak Up Policy 2009
Benefits Counter Fraud and Sanctions Policy 2010
Audit Commission requirements for the National Fraud Initiative
Trading Standards & Licensing Legislation

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INTERNAL AUDIT FRAUD & CORRUPTION PROACTIVE WORK UNDERTAKEN 2010-11

Fraud Risk Register Ref & score	Work Area	Work undertaken
2b) score 5	Cash collection In 2008-9 & 2009-10 2 investigations into theft of cash at schools. Both dealing with extra curricular activities	Income systems reviewed as part of school audit visits Guidance issued to school to advise on the types of controls that need to be in place for extra curricular activities
2b) score 5	Cash Collection Investigation 2009-10 for dinner money income that was stolen	Audit working with catering Service who are implementing new catering management information system
3a) score 5	Failing to institute arrears recovery proceedings	2010-11 - Reviewed arrears procedures in Sales Ledger, Council tax, NNDR annual audits
6a) score 7	Improper award of contracts	Out of contract audit completed 2009-10 and follow up in 2010-11 This is looked at as part of each audit
10 score 7	Social Care establishments – theft of client monies	Day Centres Visits – Severn Day Centre – Dothill Employment Links Halesfield Day Centre Lakeside Day Centre Social Education Centre, Wellington
12c) score 7	Corruption- Award of planning consents & licences	Audit plan 2011-12
13 score 8	Car parking	Audit completed 2009-10 and follow up still in progress due to service re-organisation
9. score 4	Imprest accounts	Temp accommodation & homeless prevention fund Corporate parenting 16 plus Donnington & St George's Youth Project Integrated Services, Newport Legal Services Placements Edge of Care Connexions 4 youth Leisure & Fun for looked after children
18. score 7	Recruitment	This area has been highlighted by the Audit Commission as a risk area. Reduced risk at present due to recruitment freeze To carry out Recruitment Audit based on

		guidance in Protecting the Public Purse 2012-13
19. score 7	Theft of council information / intellectual property	Audit review of storage arrangements at Stafford Park
Other	Compliance with Audit Commission Guidance	Completed Protecting the Public Purse Checklist and has informed updated Anti-Fraud & Corruption Policy.

Potential Irregular/Fraudulent Activities Investigated 2010/11

Area	Days
Arthog – purchasing procedures review	16
Dawley Town Hall Leases	16
Review requested by s151 officer	21
“I can 2” Project review	22
Infrastructure project review	10
Review of potential complaint – Economy & Skills	2
Alleged Benefit Fraud by an employee	1
Computer Misuse	4
Nursing & Maternity Council hearing	2
Review of client finances – care home (completion)	1
	95