

## **TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 26<sup>th</sup> JUNE 2012**

**2011/12 ANNUAL REPORT - CORPORATE ANTI-FRAUD & CORRUPTION ACTIVITY**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

### **1. PURPOSE**

- 1.1 For the Audit Committee to consider the 2011/12 Annual Report on Corporate Anti-Fraud and Corruption activity.

### **2. RECOMMENDATIONS**

- 2.1 That the Audit Committee notes the 2011/12 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:  
“15. 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 fourth annual report setting out the Corporate Anti-Fraud and Corruption activity for 2011/12 to enable the Audit Committee to monitor the policies operation.

### **4. PREVIOUS MINUTES**

- 4.1 Audit Committee 28<sup>th</sup> July 2009  
Audit Committee 27<sup>th</sup> July 2010  
Audit Committee 20<sup>th</sup> September 2011

### **5. INFORMATION**

- 5.1 The latest Anti-Fraud and Corruption Policy was reviewed, updated and agreed by the Audit Committee on 22<sup>nd</sup> March 2011 and was approved by Council on 23<sup>rd</sup> 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 and Government statistics 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 19,460 (live cases) at 31<sup>st</sup> March 2011 to 20,063 at 31<sup>st</sup> March 2012. This represents a 3% increase over the year. This is a slightly larger increase than between 2009/10 and 2010/11.
- 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. A telephone claim process has been introduced and the vast majority of claims are processed in this way. A telephone appointment is made within anyone making contact to make a new claim. A Benefit Assessment Officer takes all the necessary details and then an appointment is made for the claimant to see a Benefit Assessment Officer at the Council’s First Point facility where the information they have given is checked against the relevant proof of income, identity and rent details. To this end the majority of new benefit claimants who make a claim direct to the Council are seen in person by a Benefit Officer. This ensures the best possible service for the customer as claims are processed whilst they wait and the Benefit Assessment Officer explains to the customer their responsibilities regarding reporting of changes in circumstance. Entitlement letters are given to the customer at the end of the interview and explained and checked with the customer to ensure accuracy.
- 6.3 Referrals to the Benefits Investigation team come from various sources. The table below show the sources, number and percentage of total. The total number of referrals is significantly less than last year when we recorded 1,293 - a 44% reduction. The reduction is due to the implementation of the service restructure and reduced resources in this part of the service (this reflects what has been happening across all areas of the Council).

Source	Number of Referrals	Percentage of Total
Anonymous letter	74	8.3
Anonymous telephone call	212	23.7
Member of staff	137	15.3
Housing Benefit Matching Service (HBMS)	64	7.2
DWP	122	13.6
Police	20	2.2
Landlord	29	3.2
Internet/email	104	11.6
Shropshire Star/Newspaper	1	0.1
Other Local Authority	12	1.3
Named Member Of Public	3	0.3
National Fraud Initiative (2011/12)	117	13.1
Letter from the public	1	0.1
<b>Total Referrals</b>	<b>896</b>	<b>100.00</b>

### **6.4 Benefits Data Matching**

- 6.4.1 In 2011/12 there were 51 investigations closed which had been opened due to a Housing Benefit Matching Service (HBMS) referral. Of these, 22 resulted in a positive outcome i.e.

benefit was affected / fraud found. There were 64 referrals as a result of a HBMS match within 2011/12 – some of these files were still open at the end of 2011/12.

- 6.4.2 The Investigation Team have also been investigating matches identified through the National Fraud Initiative (NFI). So far 916 have matches have been completed and 46 incorrect awards of benefit and 7 frauds have been found. The fraud and error has resulted in overpayments of £77,519.
- 6.4.3 Unfortunately Benefit fraud is not just external to the Council. The Council 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 cautioned one person who was a Telford and Wrekin employee and another has accepted an administrative penalty following investigations into benefit fraud.

## **6.5 Cases Investigated**

- 6.5.1 The Benefit Investigation Team have reviewed 896 referrals. Using a risk based approach 319 of these cases were taken on for investigation. Within 2011/12 251 investigations were closed and of these 170 proved positive. Of this total, 86 cases received a formal sanction:
- Prosecutions – 44
  - Administrative Penalties – 14
  - Formal Cautions - 28
- 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, 1 further formal caution was also applied.
- 6.5.3 For the prosecutions fines of £1,780 were imposed and costs of £3,050 Awarded, please note that some of these are attributable to joint working with Department for Work and Pensions. Other sentences imposed by the courts in the last year include suspended custodial sentences, community orders, curfews and unpaid work. In addition to recovery of the overpaid benefit amount anyone accepting a caution, administrative penalty or successful prosecution cases will have a loss of benefit sanction applied which means that any ongoing benefit entitlement is reduced for a period of four weeks.
- 6.5.4 Overpayments detected in the above sanction cases totalled £315,102. The Investigation Team identified a further £246,766 of incorrectly claimed benefit.

## **6.6 Benefit Fraud Sanction & Prosecution Policy**

- 6.6.1 The benefit fraud policy was rewritten and approved by Cabinet in January 2010. The 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 Group<sup>1</sup>. A summary of the fraud risk areas and audit action taken during 2011/12 is attached as Appendix A for your information. For 2011/12 the planned proactive days were 40 days and actual 27.5 (per plan) 11 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 2011/12. 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 2011/12 was 53 days. These days are taken from contingency (101) 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 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.
- 7.5.4 The Council received their data match information in January 2011. In total 7,500 matches were identified covering a number of data sets, see below for breakdown:

Housing Benefit - 2104  
Payroll - 579  
Blue Badge - 226  
Concessionary Travel - 1134  
Private Residential Care Homes - 45  
Licensing - 3  
Creditors – 3409\*

\*This includes standing data such as duplicate creditor masterfile records and historical data in respect to possible duplicate payments made to suppliers.

- 7.5.5 The Audit Commission does not expect all 7,500 matched records to be reviewed but they do suggest reviewing matches on a risk basis using their recommended filters. In total 1,837 matches have been processed with a further 145 in the process of being investigated. This is

---

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

broadly in line with the number of recommended matches highlighted by the Audit Commission.

- 7.5.6 Steady progress has been made by the Council in reviewing matches on a risk basis. The main key findings have been where housing benefit data matches have been investigated. This has uncovered 7 frauds and 43 errors totalling £76,007.
- 7.5.7 In October 2011 the Council submitted council tax data and in December 2011 electoral registration data to the Audit Commission for data matching purposes. This resulted in 1168 matches which have been recently sent to the Council for investigation. Work on these matches is ongoing.

## **7.6 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.
- 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 2011/12, 137 came from members of staff.
- 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. Available on the intranet to Managers is an electronic Booklet and an electronic leaflet for all employees. Anti-fraud and corruption and the Speak Up Policy are included in induction for new employees.

## **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 e.news, 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

##### **For the Trading Standards Service:**

- 8.4.2 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 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.

8.4.4 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 2012/13.

8.4.5 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
- 'Cowboy' builders doing shoddy and unnecessary work
- 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:

- get a loan on very bad terms
- pay an extortionate rate of interest
- be harassed if you get behind with your repayments
- 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 2012/13

- 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.

## 11. BACKGROUND PAPERS

Corporate Anti-Fraud and Corruption Policy 2011

Speak Up Policy 2009 and 2012

Benefits Counter Fraud and Sanctions Policy 2010

Audit Commission requirements for the National Fraud Initiative

Trading Standards & Licensing Legislation

**Report prepared by Jenny Marriott – Audit & Assurance Manager - 01952 383101; Lee Higgins – Benefits Manager – 01952 83894 & Anita Hunt – Trading Standards Team Manager – 01952 381998; Suzanne Fisher – Licensing & Support Team Manager**



## INTERNAL AUDIT FRAUD &amp; CORRUPTION PROACTIVE WORK UNDERTAKEN 2011-12

Work Area	Work undertaken
Cash collection	Annual cash collection audits Review of arrangements at Travel Link office
Cash Collection – catering	Audit working with catering Service who are implementing new catering management information system
Failing to institute arrears recovery proceedings	2011-12 - Reviewed arrears procedures in Sales Ledger, Council tax, NNDR annual audits
Improper award of contracts	This is looked at as part of each audit. Review to be carried out during 2012-13 Specific work done on ICT procurement 11-12 Investigation into allegations that Council employee was favouring a particular supplier (see Appendix B).
Social Care establishments – theft of client monies	Community living imprest accounts
Corruption- Award of planning consents & licences	Planning & building regulations fees audit undertaken Feb / Mar 2012
Imprest accounts	As a result of Audit findings in checks carried out 2010-11 an article was put in the bulletin 6 May 2011 Training provided by Audit for youth services in June 2011
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
Compliance with Audit Commission Guidance	Completed Protecting the Public Purse Checklist and has informed updated Anti-Fraud & Corruption Policy. Completion of fraud & corruption checklists for all audit areas

**Potential Irregular/Fraudulent Activities Investigated 2011/12**

<b>Area</b>	<b>Days</b>
<ul style="list-style-type: none"> <li>• Social service direct payments investigation re potential fraud by someone employed under a direct payments contract.</li> </ul>	8
<ul style="list-style-type: none"> <li>• Payments to the council being made with fraudulent credit cards.</li> </ul>	4
<ul style="list-style-type: none"> <li>• Leisure centre investigation following financial irregularities.</li> </ul>	13
<ul style="list-style-type: none"> <li>• Investigation into allegations that Council employee was favouring a particular supplier.</li> </ul>	16
<ul style="list-style-type: none"> <li>• Review of the infrastructure project and contract payments.</li> </ul>	12
<b>TOTAL</b>	<b>53</b>