AUDIT COMMITTEE
24 MARCH 2017

ITEM NO. ....10..............

REVIEW OF ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

SUMMARY REPORT

Purpose of the Report

1. To review the outcomes from the Council's corporate anti-fraud and corruption arrangements for 2016/17

Summary

2. The report details a generally positive position with regard to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and the Local Government Counter Fraud and Corruption Strategy 2016-19 self-assessment checklists.

3. The National Fraud Initiative 2014 (NFI) has been concluded with all significant potential matches examined and outcomes reported to the Cabinet Office.

4. The National Fraud Initiative 2016 (NFI) has commenced with some 759 significant potential matches received across all data sets to be examined during 2017.

5. Overall the number of reported frauds and whistleblowing cases in the year remain low.

6. It is concluded that the Council's anti-fraud and corruption arrangements remain appropriate and fit for purpose when compared to national good practice guidance. However the Council is not complacent and the position remains under review.

Recommendation

7. It is recommended that the content of the report be noted.

Reason

8. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers

  (i)   Anti-Fraud and Corruption Strategy
 (ii)   Anti-Fraud and Corruption Policy
(iii)   Fraud Response Plan
 (iv)   Anti-Money Laundering Policy
  (v)   Anti-Bribery Policy and Procedures
 (vi)   CIPFA Code of Practice on Managing the Risk Of Fraud and Corruption
(vii)   Home Office- Organised Crime Procurement Pilots Final Report December 2016
(viii)   Local Government Counter Fraud and Corruption Strategy 2016-2019

Brian McGuire: Extension 5410

S17 Crime and Disorder	Other than the reported frauds there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

Background

9. The Council's Anti-fraud and Corruption arrangements are subject to annual review to ensure they remain appropriate. The last review was considered by this Committee in March 2016 (Minute A40/18March 2016) where overall a generally positive position was reported.

10. A Code of Practice on Managing the Risk of Fraud and Corruption was published by CIPFA's Counter Fraud Centre in October 2014 which assumed elements of the Audit Commission's responsibilities for counter fraud. This document includes a comprehensive compliance self- assessment checklist which has again been completed for 2016/17. Overall a positive position was identified with certain improvement actions remaining outstanding to enhance the Council's arrangements that are detailed at **Appendix A.**

11. In order to keep abreast of topical issues, members of staff from Audit Services have attended informative workshops on Counter Fraud facilitated by Audit One, Fraud Awareness facilitated by RBS Banking Group, Banking and Plastic Card Fraud facilitated by Handels Banken and Current Major Fraud Threats facilitated by the National Anti-Fraud Network

12. The content of the PwC Fraud Academy website continues to be regularly monitored in order to share good practice and to keep informed on current issues.

13. Fraud alerts continue to be received via the National Anti-Fraud Network and major Police Authorities with threats during the year including bank mandate fraud, receipt of bogus invoices and e mail authorisation scams. Where appropriate, alerts and advice are circulated to relevant establishments including schools as a fraud prevention measure.

14. The Council subscribes to the CIPFA Counter Fraud Centre which provides access to a range of tools, alerts and resources needed to combat fraud in public service.

15. A poster campaign has been undertaken across Council Buildings to highlight general fraud awareness and also possible procurement scams.

Local Government Counter Fraud and Corruption Strategy 2016-19

16. The Local Government Counter Fraud and Corruption Strategy (Fighting Fraud Locally Strategy) was first published in 2011.

17. The strategy has been refreshed for 2016 and beyond taking account of the changing landscape for local government including reductions in funding, transfer of welfare fraud investigation to the DWP and emerging /increasing fraud risks.

18. The strategy continues to be based around the core principles of:
    - *Acknowledge-* Acknowledging and understanding fraud risks
    - *Prevent* – Preventing and detecting more fraud
    - *Pursue* – Being stronger in punishing fraud/recovering losses

19. The strategy incorporates a good practice/improvement self- assessment checklist to enable an Authority to measure its performance /progress in respect of counter fraud arrangements and to identify any improvements required. This checklist has been completed at **Appendix B** and overall a relatively positive position was identified. In respect of the two areas where a 'Partial' compliance was assessed, internal fraud publicity and whistleblowing arrangements for contractors, an improvement action plan will be formulated with appropriate officers for implementation in the first half of 2017.

Home Office Organised Crime Procurement Pilots

20. In December 2016 the Home Office published their final report in respect of a pilot scheme undertaken across the country quantifying the threat serious and organised crime poses to publicly procured services in Local Authorities and how to respond to that threat.

21. The pilot scheme involved joint working and data matching between the police and local authorities in seven areas of the country to examine the threat and strengthen protective measures.

22. The joint work undertaken identified a number of links (10) between publicly procured services and organised crime within the pilot areas and the services identified as being most at risk to be waste disposal, taxi/school transport and general low level spend.

23. The report makes several key recommendations including:
    - Completion and evaluation of the Serious and Organised Crime Checklist – to identify potential areas of concern and allow for more targeted follow up action to strengthen processes and structures.

- Undertake a serious and organised crime review utilising the framework provided within the report to determine in more depth potential risks and mitigating controls.
- Consider incorporating the provided statement within the report of non-involvement in serious and organised crime into the Councils procurement documentation.
- Commence a dialogue with the police about serious and organised crime and the risk of infiltration by organised crime groups with a view to identifying any possible areas of serious concern.

24. In respect of the framework and checklist mentioned above, a significant number of controls detailed in these documents are already considered to be in place and operating but it is considered undertaking such a review will allow the position to be further strengthened and consolidated.

25. It is therefore proposed to examine these recommendations in more detail during the course of 2017/18 and report back to the Committee accordingly.

Reported Suspected Frauds and Whistle Blowing Cases

26. One fraud was notified to Audit Services during 2016/17 in accordance with the requirements of the Council's Financial Procedure Rules. The case has resulted in the resignation of an employee and ongoing police action.

27. A total of five whistleblowing cases were received during the year and dealt with in accordance with the Council's Confidential Reporting Policy, one of which was reported anonymously. One case related to alleged professional misconduct which was dealt with internally, three to alleged possible fraudulent activity, (one dealt with through the Council's disciplinary procedures, one through the Council's contract procedures and the third resulted in a resignation). The fifth case relates to an allegation of inappropriately letting a Council Contract (but not fraud related) that remains ongoing. The number of whistleblowing cases received is a decrease from the previous years' total of fifteen.

Ethics and Code of Conduct

28. The Assistant Director – Law and Governance is currently finalising a refresh of the Council's Code of Conduct for Employees, Whistleblowing and Anti-Bribery Policies with a view to strengthening areas of the policies as recommended by Audit Services as part of an Ethics review referred to in the 2015/16 Anti-Fraud and

Corruption report. It is expected that these Policies will be completed and adopted in the first quarter of 2017/18.

Identity Fraud – Registration Service

29. Identity fraud where one person uses another person's personal data, without authorisation to deceive or defraud someone else is recognised as one of the most significant emerging fraud threats in Local Government.

30. Fraud Awareness is embedded in all aspects of the Register Office Services from certificate production to Registering Births, Deaths, Notices of Marriage, performing weddings and guiding the public through the process of Citizenship and becoming a British Citizen.

31. The Registration Service is in a unique situation being delivered by the local authority on behalf of the General Register Office (GRO), part of the Home Office. GRO's role is to implement relevant legislation and priorities, to set policies and procedures, to supply all certificates and security stock and to seek reassurance through monitoring the performance of a Register Office against set systems and standards. The Council's Registration Service was recently tested against these systems and standards and received a rating of a High Assurance.

32. Also at local authority level robust auditing systems of managing and issuing certificate and security of stock, the management of data, training and performance of staff strengthen GRO's security assurances.

33. In practice fraud awareness for the Register Office is embedded throughout the service and part of the daily culture. Fraud in certificate applications is a high priority with postal and online applications a common way to obtain a certificate for fraudulent use from that of a deceased person, to counterfeit and altered certificates and claims of lost certificates in the post, all to provide fake identities, often to gain access to citizenship or benefits.

34. In Birth and Death registrations, Registrars have a robust system of working with Health Professionals, Funeral Directors, the Coroner and the Burial and Cremations Service to ensure that all births are genuine, that errors and corrections are made only for a valid reason and not to e.g. change a father's name for a fraudulent purpose (so that he may gain citizenship or legal rights). Also the Harold Shipman inquiry brought about many lessons for the Registration Service which is still on going and again a robust system of death certificate to registration to

disposal of the body is in place to ensure that a death cannot be faked or the process assisted in anyway.

35. Fraud in marriage is a high priority for the Registration Service nationally and again there are procedures in place with the checking of documents to ensure that anyone giving Notice of Marriage or their Banns is indeed that person and is free to be married. There have been reported instances nationally of abusing those mentally unable to be married forcing them to marry in order for the other party to gain citizenship.

36. Registrars are also trained in the issues and how to deal with a forced and sham marriage. Finally in Citizenship although the Home Office grant citizenship, at the Citizenship ceremony Registrars ensure all applicants are who they say they are, checking documentation to prove so.

37. Giving false information at any registration has an offence of Perjury and all customers are reminded of the nature of perjury at the time of the registration. The issues around fake certificates, identity fraud, faking a birth or death and using a registration to gain citizenship or access to public money is a high priority for the Government which the Registration Service acknowledges and embraces on a daily basis.

National Fraud Initiative 2014

38. The results of the above initiative were published by the Cabinet Office in November 2016 and detail the findings in England for the period 1st April 2014 to 31st March 2016.

39. The report identifies that some £65 million of actual fraud and error was detected, as well as a further estimated £133 million of fraud and error and future losses prevented. Of the £65 million actual fraud and error, some £44 million is currently being recovered.

   The main categories being:

   - £85m of pension fraud and overpayments
   - £37m of fraudulent or wrongly received, council tax single person discount (SPD) payments
   - £39m of welfare benefit fraud and overpayments

   The exercise also produced the following significant results in England.

- 54 properties were recovered for social housing
- 52 employees were dismissed or asked to resign because they had no right to work in the UK.
- 535 people were prosecuted.
- 726 false applications were removed from housing waiting lists.
- 23,063 blue badges and 97,064 concessionary travel passes were cancelled.

In respect of Darlington, six matches proved positive resulting in some £16.6k of overpayments which are in the process of being recovered. The detailed results are reported at **Appendix C.**

National Fraud Initiative 2016-18

40. The National Fraud Initiative 2016 has commenced with Council data sets submitted to the Cabinet Office for matching in October 2016 with potential matches being received back in January 2017. Some 759 recommended matches have been received and these are in the process of being work through. The number of matches is smaller than in recent years due to the bulk of Housing Benefit matches now being investigated by the DWP directly.
The breakdown of matches per type of data is reported at **Appendix D.**

Conclusion

41. It is concluded that the Council's anti-fraud and corruption arrangements remain appropriate and fit for purpose when compared to national good practice guidance. However, the Council is not complacent and the position will be kept under review. Overall the number of reported frauds and whistleblowing cases remains low.

Outcome of Consultation

42. There was no formal consultation undertaken in production of this report.

CIPFA Code of Practice –Managing the Risk of Fraud and Corruption

Improvement Action Plan

Action	Improvement Action	Implementation Timescale
1	Improve the visibility of the Corporate Management Team on the threat of Anti-Fraud and Corruption via an internal communications campaign.	September 17
2	In updating the Anti-Fraud and Corruption Strategy provide clarity on how it supports the overall objectives of the organisation as outlined in the Darlington Sustainable Community Strategy.	Currently in draft to be submitted for approval first half of 2017/18

Fighting Fraud and Corruption Locally 2016-2019 Checklist

Action	Compliance	Commentary
The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its board and members	Yes	Undertaken on an ongoing basis through completion of the annual audit plan. When undertaking audits, use is made of intelligence sources such as NAFN, PwC Fraud Academy, CIPFA Counter Fraud Centre to provide information on controls, current developments on evolving threats etc. Risk assessments are maintained for each service area which include fraud indicators.
The local authority has undertaken an assessment against the risks in Protecting the Public Purse: Fighting Fraud Against Local Government (2014 and has also undertaken horizon scanning of future potential fraud and corruption risks	Yes	Yes presented to the Audit Committee in March 2015. Horizon scanning of future risks is undertaken by the use of various intelligence sources as detailed above
There is an annual report to the Audit Committee with a detailed assessment to compare against Fighting Fraud and Corruption Locally 2016 and this checklist.	Yes	
There is a counter fraud and corruption strategy applying to all aspects of the local authority's' business which has been communicated throughout the local authority and acknowledged by those charged with governance	Yes	See Strategy
The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes	See Local Code of Corporate Governance and AGS framework Internal Audit work undertaken
The risk of fraud and corruption are specifically considered in the local authority's overall risk management process	Yes	Maintained as a strategic risk. All risks are continually managed during the year by Corporate and Group Management Teams including any emerging risks identified. In

		addition, Assistant Directors are required to confirm in their Annual Assurance Statements that processes are in place to ensure that controls identified to support the positioning of risks on the risk matrices are in place and working.
Counter fraud staff are consulted to fraud proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Yes	Internal Audit are generally involved /consulted on a wide range of polices, initiatives, new systems implementations to ensure the adequacy / soundness of the internal control environment. Such work is reported to the Audit Committee as part of the services consultancy work undertaken.
Successful cases of proven fraud or corruption are routinely publicised to raise awareness	Yes	Cases are publicised externally in the local press in the event of a court case or internally through management/staff meetings etc.
The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and reported to committee.	Yes	Yes, documented system of internal control. Internal Audit annual plan and reporting arrangements. Managers Assurance Statements NFI
The local authority has put in place arrangements for monitoring compliance with standards of conduct across the authority covering: - Codes of conduct including behaviour for counter fraud, anti-bribery and corruption - Register of interests - Register of gifts and hospitality	Yes	Academy 10 on line interactive learning tool – mandatory requirement for all staff to complete the Code of Conduct module. Compliance with the Code is monitored through the Internal Audit annual programme and by the Assistant Director law and Governance and Head of Democratic Services as are the registers of interests and gifts and hospitality registers.
The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2016 to prevent potentially dishonest employees from being appointed.	Yes	Vetting takes place in respect of always obtaining references, checking qualifications and where appropriate obtaining a DBS check for sensitive and safeguarding posts.
Members and staff are aware of the need to make	Yes	Yes, members disclosures audited in 2016/17 as part of a members

appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee		audit, staff audited in 2015/16 as part of an Ethics review. As a consequence, the Employees Code of Conduct is in the process of being strengthened in this regard to further clarify responsibilities and obligations in this respect.
There is an independent whistleblowing policy which is monitored for take up and can show that suspicions have been acted upon without any internal pressure	Yes	Monitored by Internal Audit and the Assistant Director of Law and Governance. Outcomes reported to the Audit Committee annually and quarterly as part of the performance management framework.
Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.	**Partial**	There is a requirement in the Council's Procurement Terms and Conditions (point G2.2.4) that contractors adhere to the policy however this requires further descriptive enhancement including a link to the policy on the website;
Fraud resources are assessed proportionately to the risk of the local authority and adequately resourced.	Yes	Fraud work is undertaken through Internal Audit which is resourced accordingly.
There is an annual fraud plan which is agreed by committee and reflects resources mapped to the 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	Yes	The fraud plan is subsumed into the audit plan which is risk based taking into account any current or potential fraud risk areas across the Council including procurement and the use of contractors on other services.
Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes	Yes	Details of all fraud investigations, outcomes and recoveries are maintained by the Audit Manager. Investigations are reported quarterly to the Audit Committee as part of the Audit progress report.
Fraud officers have unfettered access to premises and documents for the purpose of counter fraud investigation	Yes	This work is predominantly undertaken by Audit Services who have unrestricted access as provided for in the Council's Financial Procedural Rules and Audit Services Terms of Reference.
There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team	**Partial**	There is no formal mechanism in place for publicising fraud and corruption cases internally. Fraud cases involving court appearances are routinely publicised in the local press.

All allegations of fraud and corruption are risk assessed	Yes	All allegations are risk assessed to determine the likelihood of fraud actually been incurred.
The fraud and corruption response plan covers all areas of counter fraud work: • Prevention • Detection • Investigation • Sanctions • Redress	Yes	Yes, see response plan
The fraud response plan is linked to the audit plan and is communicated to senior management and members	Yes	Plans are endorsed by members and agreed with senior management.
Asset recovery and civil recovery is considered in all cases	Yes	The Council seeks to recover losses in all cases.
There is a zero tolerance approach to fraud and corruption which is always reported to committee	Yes	The Council maintains a documented and publicised zero tolerance approach to fraud and corruption.
There is a programme of proactive counter fraud work which covers risks identified in assessment	Yes	Incorporated into the internal audit plan when undertaking internal audits. Pro-active work is undertaken in Revenues and Benefits (see annual report)
The fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement action	Yes	Internal Audit work with the police, insurers, DWP and other authorities as required.
The local authority shares data across its own departments and between other enforcement agencies.	Yes	There are data sharing protocols in places to share data as required.
Prevention measures and projects are undertaken using data analytics where possible	Yes	Some use is undertaken of data analytics but this is expected to increase significantly from 2017/18 onwards as part of the Audit Shared Services initiative with SBC where it is intended that much more use will be made of IDEA software (interactive data extraction

		and analysis) to introduce a process of continuous auditing on an exception type basis analysing large quantities of data.
The local authority actively takes part in the National Fraud Initiative (NFI) and promptly takes action arising from it	Yes	Internal Audit co-ordinate the NFI initiative across the Council and report upon outcomes from the initiative.
There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.	Yes	There are no dedicated counter fraud staff, work is undertaken through Internal Audit who have the relative experience and attributes.
The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.	Yes	Internal audit staff are all experienced and have a good working knowledge of the Council's operations.
The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for: • Surveillance • Computer forensics • Asset recovery • Financial investigations	Yes	As required.
Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.	Yes	Following each instance of proven fraud there is always a debrief between Internal Audit and management and agreed improvement actions are initiated and monitored for successful implementation.

NFI 2014 -2016 Principal Data Sets - Summary of Final Outcomes

Data	Total Number of Matched Data- Sets per Data Type with Examples	Number of Recommended Matches	Number of Matches Investigated	Matches requiring further investigation
Concessionary Travel Passes	**1** – DWP deceased	349	349	0
Blue Badges	**2** - Permit to Permit, DWP deceased	413	**1	0
Creditors	**10** – amount/creditor reference, address and invoice number/amount but different creditor reference and name, creditor name	*141	*94	4 2 no issues identified, 2 duplicate invoice payments identified totalling £1,528.88.
Housing Benefits	**40** – pensions, student loans, housing tenants	302	387	4 1 no issue identified, 3 overpayments identified totalling £6,887.01.
Housing Tenants	**12** – state benefits, HB claimants, housing tenants	22	69	2 2 no issues identified.
Insurance Claimants	**3** – insurance claimants	4	9	0
Payroll	**4** – creditors, payroll, pensions	12	34	0
Personal Budgets	**6** – HB claimants, pensions	124	128	2 1 no issue found, 1 overpayment identified totalling £8,161.78
Private Residential Care Homes	**1** – DWP deceased	5	30	0

Right To Buy	**2** – HB claimants, housing tenants	1380	10	0
Totals	**81**	**967**	**1,111**	**12**

Note: Investigation of recommended matches is mandatory, time permitting a range of other matches are also investigated, hence the variance in totals above.

Total amount of overpayments identified £16,577.67.

Note:

*At each payment run stage, audit interrogation software identifies any potential duplicate invoice payments by amount and creditor reference number and places each of these invoices on hold until an officer confirms whether it is an actual duplicate invoice payment or not. Therefore, each of the NFI recommended matches identified, would already have been previously checked as part of this process and have not been checked as part of the NFI exercise.

Matches received are deemed as recommended or non-recommended as determined by the NFI based on the quality of the data match (i.e. how closely the two sets of data match up).

The Council has a statutory requirement as a minimum to check each significant recommended match received. However, non-recommended matches are checked by officers whenever possible, depending upon time constraints and resource available.

** In respect of blue badges matched to death records, no further action is taken on these other than ensuring that the badge is not issued again at re-application stage. There is no obligation to return the badge in the event of the death of the holder.

NFI 2016 Principal Data Sets - Summary of Recommended Matches to Investigate

Data	Total Number of Matched Data- Sets per Data Type with Examples	Number of Recommended Matches
Concessionary Travel Passes	**1** – DWP deceased	139
Blue Badge	**2 -** Permit to Permit, DWP deceased	223
Creditors	**11** – amount/creditor reference, address and invoice number/amount but different creditor reference and name, creditor name	142
Housing Benefits	**26** – pensions, student loans, housing tenants, payroll, market traders, taxi, licences,	65
Housing Tenants	**4** – state benefits, HB claimants, housing tenants, CTR claimants	4
Housing Waiting Lists	**9 –** immigration, housing tenants, other waiting lists, housing benefits	140
Insurance Claimants	**1** – insurance claimants	1
Payroll	**4** – creditors, payroll, pensions	8
Personal Budgets	**3** – deceased, pensions	9
Private Residential Care Homes	**1** – DWP deceased	18
Right To Buy	**1** – HB claimants, housing tenants	0
Council Tax Reduction Scheme	**27 -** pensions, student loans, housing tenants, payroll, market traders, taxi, licences,	10
Totals	**90**	**759**