

Somerset County Council  
Audit Committee – 25 January 2018

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## **Anti Fraud and Corruption Review**

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Cabinet Member: Cllr David Hall– Cabinet Member for Resources and Economic Development  
Division and Local Member: All

### **1. Summary/link to the County Plan**

- 1.1. This report is the annual review of all the measures that the County Council has undertaken in the last year aimed at the prevention, detection and reporting of fraud and corruption. This is in accordance with our Financial Procedures and acknowledged best practice.
- 1.2. Anti-fraud and corruption strategy forms an important part of our corporate governance and internal control framework. With assistance from specialist staff from the South West Audit Partnership, we have compared the County Council's systemic defences against typical target areas for fraud, and against national trends and guidance.
- 1.3. The officers' conclusion of this review is that the County Council has a sound framework in place, although still more could be done to raise awareness. However, we continue to see a small number of fraud allegations, some leading to more formal investigations and reports to Action Fraud, and the need for continued vigilance remains.
- 1.4. There has been a review of our Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Anti-Money Laundering Policy, and these are still deemed to be fit for purpose.

### **2. Issues for consideration**

- 2.1. The Audit Committee is asked to note the current national trends and to consider the specific anti-fraud and corruption measures undertaken locally (paragraphs 3.4 and 3.5 below, and presentation).
- 2.2. The Audit Committee is asked to re-confirm the Anti-Fraud and Corruption Policy as set out in Appendix 1, and the subsidiary Anti-Bribery and Anti-Money Laundering policies.
- 2.3. The Audit Committee is invited to comment on the local fraud cases in confidential Appendix 2 (although this would require going into private session).

### 3. Background

#### 3.1 National commentaries

Many organisations provide guidance / information about combatting public sector fraud.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has taken on a larger role to guide counter fraud work in the public sector, with a dedicated Counter Fraud Centre since 2014. It has published a “**Code of practice on managing the risk of fraud and corruption**”. This Code is designed to “support organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption.” It has also supported the latest Fighting Fraud and Corruption Locally (FFL) tri-annual strategy entitled “**The local government counter fraud and corruption strategy 2016-2019**”, and CIPFA has produced its own “**Fraud and Corruption Tracker 2017**” which summarises the national position on many types of fraud through surveying local authorities.

The Cabinet Office now has responsibility for the National Fraud Initiative (NFI), and has recently produced a detailed report on work undertaken under the NFI and potential losses and recovery achieved. Our local work under the most recent NFI data is set out below.

The European Institute for Combatting Corruption and Fraud (TEICCAF) “exists to protect the public purse and voluntary sector funds from corruption and fraud throughout Europe”. It has produced a review entitled “**Protecting The English Public Purse 2016**”, and we are awaiting the results of the 2017 survey, which is imminent.

A more recent addition to the guidance has been the Centre for Counter Fraud Studies based at the University of Portsmouth, which produced the “**Annual Fraud Indicator 2017**”, which attempts to re-quantify the likely loss through fraudulent activities by each category of fraud.

The majority of these publications are based on surveys and estimated costs of fraud by sector (private, public, individual, charity etc). Whilst the estimates are not always consistent, there is strong correlation as to the areas where fraud is perpetrated against, say, local authorities, and general consensus as to new and emerging risks (see below). For example, it is clear that many commentators consider that procurement and adult social care risks (e.g. letting new contracts) are emerging areas of increased risk for local authorities.

There is also guidance from most publications as to how to combat fraud locally. The majority advise following a thought process similar to the CIPFA mantra of **Acknowledge Responsibility – Identify Risks – Develop A Strategy – Provide Resources – Take Action**.

Many commentators cite a problem with organisations accepting that they are a fraud target, and a proportion of our anti-fraud and corruption work in recent years has been to emphasise to key groups that Somerset County Council is, and remains, a fraud and corruption target. Presentations and workshops have been given to key groups, such as a review of anti-money laundering with our exchequer staff who receive payments on behalf of the County Council, and a presentation to senior managers as to the risks of “abuse of position” type frauds and the need for continued vigilance.

#### 3.2 Estimating the cost of fraud

All of the above agree that fraud against the public sector remains “big business” and that combatting it remains a high priority for local authorities and public sector organisations.

It is obviously very difficult to quantify the total frauds perpetrated against local authorities, because not all frauds are detected, and even those that are detected and pursued may not be possible to calculate as an absolute value.

The last comprehensive survey was undertaken by the (now defunct) National Fraud Authority in 2013/2014. It is estimated that public sector fraud still costs the taxpayer at least an estimated £20.3 billion a year, and local government £2.2 billion a year (see diagram below).

The Cabinet Office’s work had concluded that this figure is probably a very conservative estimate, and quotes the combined losses from central and local government to be between £20 billion and £49 billion per annum. It comments that every time government spends money or provides benefits and services, it is vulnerable to fraud and error.

The Annual Fraud Indicator 2017 headline figure estimates that public sector fraud losses are estimated to be £40.4 billion, of which £7.8 billion it attributes to local government, excluding benefits. CIPFA’s Tracker estimates 75,000 frauds have been detected or prevented across local authorities in 2016/17 with a total value of £336.2m. Therefore, the implication is that only a fraction of all frauds perpetrated are actually detected.

Obviously, it should be noted that some organisations are markedly more susceptible to fraud risk than others depending on their functions, e.g. housing tenancy and housing benefit fraud will only impact on housing authorities. Further there is a marked difference in frauds detected across the regions, with detected incidents in London alone being 3 times the whole of the South West combined.

Breakdown of fraud losses by victim group



### 3.3 Fraud risks to Somerset County Council

The pie charts below show detected fraud by volume, and then detected fraud by value for all local authorities, from CIPFA's 2017 fraud survey of local authorities.

Broadly, these figures are consistent with previous year's surveys, and emerging trends and key points to note are discussed in more detail below. Again, these results are from all local authorities (County, District, Unitary, Metropolitans, London), and so not all fraud categories are direct fraud risks to the County Council.

Chart 1 : Detected fraud by volume

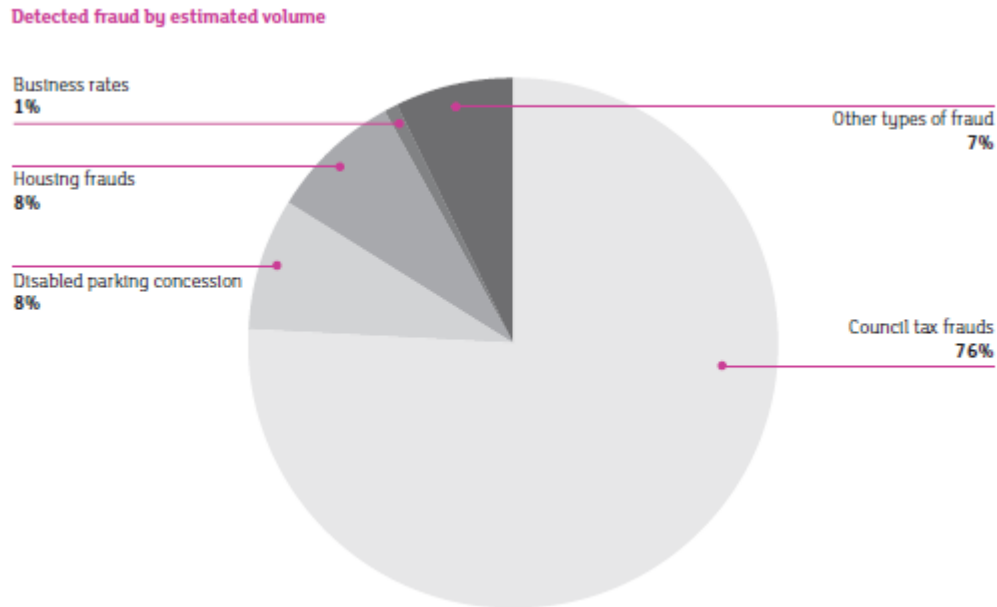
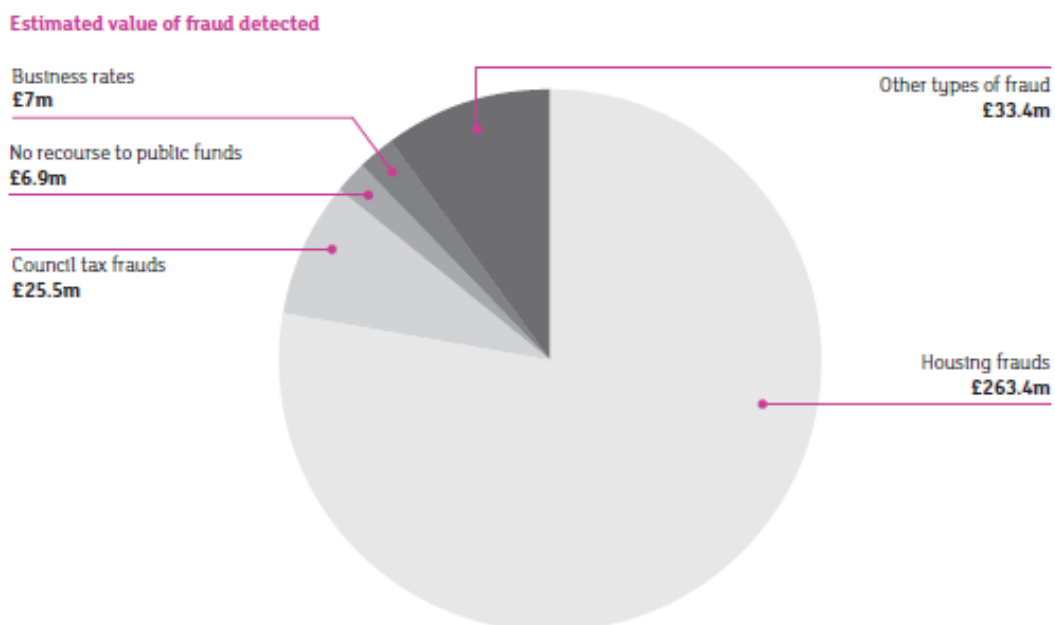


Chart 2 : Detected fraud by value



The CIPFA survey reports that there was an average of 4 prosecutions per survey respondent. It must be remembered, however, that the responders included District and

Unitary authorities with Council Tax and housing responsibilities, and as the charts show, these are by far the largest proportion of detected cases.

Many of the “traditional” fraud risks are not directly applicable to Somerset County Council, such as housing tenancy and benefit, Right To Buy and No Recourse to Public Funds frauds. However, there are a number of key findings that come from the CIPFA survey, that do have direct implications for the County Council in terms of specific fraud risks.

**Council Tax fraud.** Of the frauds detected in 2016/2017, almost 90% were Single Person Discount, with the remainder generally being council tax reduction (CTR) support, whereby the council tax payer falsifies household income to qualify for support. Whilst this is not directly targeted at the County Council, it obviously bears the greatest financial loss as a result. This is a typical example of a high volume, low risk fraud. Protecting the English Public Purse has estimated that nationally some 4-6% of all Single Person Discounts are either genuinely errors or fraudulent claims. Over 37,000 Single Person Discounts were stopped as a result of the National Fraud Initiative work alone in 2016.

We have previously reported a proposal that was received from the s151 officers in our Districts for the County Council to help fund a review of the Council Tax base, in particular with respect to claimants of Single Person Discount. The Director of Finance and Performance agreed to provide the necessary financial support to this proposal, as the County Council will be the main beneficiary. A total of approximately £315,000 has been provided in order to fund this work, and the projections provided suggest that the benefit to the County could be as high as £1.8m as a result. Obviously, these will include many errors and updates, and will not simply be anti-fraud activity.

**Business rates fraud.** Typically this is simply evasion of payments, or even falsification of information to secure exemptions or relief. Again, whilst not directly perpetrated against the County Council, the impact will, (certainly post 2020), impact directly. Whilst business rate fraud were only 1% of the total survey, they tend to be significantly higher values than Council Tax – around £10,600 per case as opposed to £400 per Council Tax case that was detected.

**Blue Badge fraud.** The amount of fraud is very difficult to calculate, as it relates to lost parking revenues. Even in the event of a successful prosecution, there is no direct financial recovery that can be made, and any fine paid by the individual goes to the court, although some costs can be recovered. The Cabinet Office states that over 23,000 Blue Badges were cancelled nationally in 2015/2016, as a result of the National Fraud Initiative, but actually the number of Blue Badge frauds nationally are reducing, and are very much based around London authorities.

**Pension fraud.** Typically, in a similar way to Blue Badge fraud, this is often “Failing to disclose information” under the 2006 Act, where the Fund is deliberately not notified of the death of a pensioner and the funds continue to be paid, and used by a family member. Over 3,500 pension payments were stopped in 2015/2016, mostly in response to the above. The National Fraud Initiative is a particularly good tool in recovering overpayments of pensions, mostly through error, as we know what we have paid out and when, and we will be told the date of death by the DWP and General Registrar’s Officer and can match the dates accordingly.

**Procurement fraud.** This category of fraud appears to be on the rise nationally. This can be at any stage of the procurement of goods and services to an authority, such as through

tendering, or even during the contract monitoring stage after a contract is let. CIPFA reports that cases have increased by 500% since 2014/2015, admittedly from a very small base. Even with a small number of cases, because of the nature of fraud, the potential costs in each case to authorities is substantial (£31,300 per case detected in 2016/2017).

Somerset County Council now has a very well defined procurement process for awarding contracts, using a dedicated portal, and as such has a level of protection against procurement frauds that provides strong assurance.

**Concessionary Travel fraud.** Again, the primary method of committing fraud on concessionary travel is to deliberately not notify us of the death of a pensioner and to continue to use, (and even re-apply) for a pass. Over 97,000 such passes were stopped nationally in 2015/2016. Somerset County Council has improved its work generally on concessionary fares in 2017 by the appointment of a dedicated concessionary fares officer.

Other smaller areas where fraud can be perpetrated against a County Council include payroll fraud, grant fraud, recruitment fraud, expenses fraud and insurance fraud, although there are significantly smaller incidences of these frauds.

**Adult social care fraud.** Adult social care fraud can happen in a number of ways, but the increase in personal budgets gives a greater opportunity for misuse. Investigations reported cover cases where direct payments were not being used to pay for the care of the vulnerable adult. One reported case in Essex where this was the case over a number of years, was where the fraudster (a relative) had kept the money for her personal use. The fraudster, who was also a social worker employed by the Council, was found guilty, dismissed and had to repay nearly £47,000.

Other adult care social frauds include care workers / suppliers claiming money for time that they had not worked with those needing care, and even identity fraud of the vulnerable adult to claim the funds,

Other frauds that could directly impact against SCC include:-

- **Insurance fraud** for false claims (SCC's Insurance Team has implemented the Claims and Underwriting Exchange (CUE). CUE is a central database of motor, home and personal injury/industrial illness incidents reported to insurance companies, which may or may not give rise to a claim).
- **Payroll fraud** for unworked hours and expenses. (CIPFA report that 40% of payroll cases involved insider fraud, but SCC can take a great deal of assurance from the repeatedly Substantial assurance from SWAP audits).
- **Mandate fraud** claiming to be from suppliers and asking us to change their bank account details (SCC has controls in place to check any such requests, and this is a rather unsubtle and combatable fraud attempt).

### 3.4 Corporate Criminal Offence: failure to prevent tax evasion

New legislation has been enacted since the last anti-fraud and corruption report to Audit Committee within the Criminal Finances Act 2017. Only two things need to happen for a relevant body to commit the Offence:

- A fraud is committed; and
- It is facilitated by someone associated with the relevant body

A relevant body's employees are associated with it as well as contractors supplying services to the relevant body.

Facilitation includes failure to prevent.

Three examples are quoted:

1. An employee agrees to pay a contractor in cash for construction-related work at a local authority school on the understanding that VAT will not be accounted for the payment will be made outside of the Construction Industry scheme
2. An outsourced payroll contractor agrees with an individual to turn a blind eye to the IR35 rules
3. An employee agrees to pay a third party for a casual labour task as the contracted provider, who should have been treated as an employee for PAYE and NIC purposes, has no business bank account

In these cases, the local authority is liable. It is a strict liability offence, meaning that knowledge of the actions is not needed for there to be a liability. Unless, a relevant body has put in place reasonable preventative procedures there will be an investigation by HMRC with potential prosecution and an unlimited financial penalty.

The County Council is continuing to review its procedures in this matter, and may well engage SWAP for audit opinion.

### **3.5. SWAP audit - Local Preparations for Managing National Fraud Risks**

Each year, as part of the Internal Audit Plan, we include a fraud-themed audit, looking at how well protected the County Council is from certain fraud risks. In 2017/2018, SWAP was tasked with looking at what we considered the top 8 national fraud risks that we could be exposed to (including our local knowledge), and to evaluate the systems and processes that are in place to protect us from fraudulent activity. The areas selected were as follows:-

- Council Tax and Business rates (\*)
- Blue badge
- Concessionary fares
- Payroll
- Insurance
- Procurement
- Early Years
- Accounts Payable (Creditors)

*(\*) Council Tax and Business rates are included in this review as, whilst collected by District and Borough Councils, losses through fraud would impact the Council due to reduced revenue.*

SWAP's work looked at the risks and frauds that are typically perpetrated in each of these areas, and the corresponding controls that are in place. For example, this is the table from the payroll section of the work.

Risk	Controls
Working while sick	Signed counter fraud declarations
Timesheet and overtime fraud	Separation of duties
Fraudulent expenses and travel claim	NFI
Misrepresentation of qualifications and skills	Approval of starters and leavers by authorised signatories
Ghost staff	Timesheet completion

The report concluded that:-

- There was lower risk and greater assurance in 4 areas – Council Tax and Business rates; payroll; insurance and Early Years.
- A number of management responses to audit actions have been recently put in place around concessionary fares, and these will be tested in Quarter 4 of 2017/2018, so whilst this is expected to be satisfactory it has yet to be re-audited to confirm that these are working well.
- The control framework is generally robust around Procurement, but due to the nature of the service and the potentially significant sums of money that are at risk, this is still a potential fraud concern.
- The large volume of transactions and sheer volume of expenditure going through Accounts Payable (creditors) means that this will always be a potential fraud concern, despite Reasonable audit assurance in previous audits.
- The Blue Badge service has not been audited since 2012, and the controls in place are relatively limited, although there is no evidence that fraud has been attempted. SWAP recommends a review of the operation of the blue badge scheme is included in the 2018/19 audit plan.

### **3.6. National Fraud Initiative (NFI)**

(A short presentation on the National Fraud Initiative will be given at the Audit Committee meeting to illustrate how it works).

Somerset County Council continues to participate in the Cabinet Office's National Fraud Initiative (NFI). This scheme is a cross-authority exchange of information between public bodies, with its own highly-secured website, which is run on a 2 year cycle. The latest information was uploaded in February 2017.

(A previous NFI exercise was directly responsible for the only successful prosecution that Somerset County Council has had for fraud to date, which was a pension case).

Participating authorities provide information from their primary systems to the NFI for analysis. This information includes, for example payroll, pensions, creditors, Blue Badge holders, insurance claims, concessionary travel passes and personal budgets.

The Cabinet Officer NFI teams then compare our data both internally and with information supplied by other organisations, and highlights potential errors or frauds. For example, it compares staff on our payroll and pensions, who also appear on other authorities payroll and pensions records for the same period, or people on our pensions



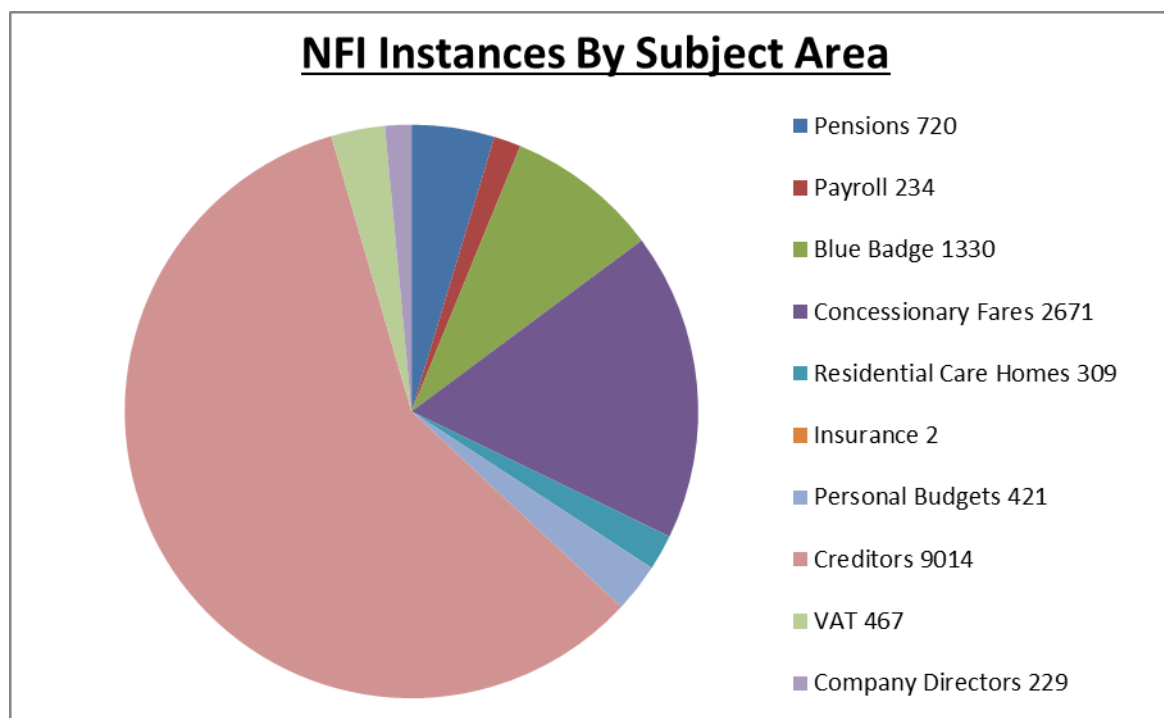
or concessionary fares lists for whom the Department of Works and Pensions have a deceased date. It also looks at where we have made the same or similar payments to the same supplier over time, or where the VAT on payments is unusual.

Once the NFI have done their comparative work, we receive “datasets” back onto our secure system. A dataset is effectively a list of all potential “matches” or concerns that the NFI’s work has thrown up in a certain area e.g. pensions.

Access to the website is highly restricted, but a few staff within each service area in the County Council then investigate the potential matches for any suspicious activity in their own specialism. Where the potential match is with another authority, there is a secured electronic communications within the other authority to check details and investigate in a collaborative manner.

In the latest two-year cycle, just completed, the NFI returned a total of 15,397 potential matches to consider. Of these, 5,532 were deemed as “Recommended” to investigate, where the analysis showed a greater possibility of fraudulent behaviour. Officers at SCC (plus Peninsula Pensions) have so far reviewed 6,367 – well above the Recommended level.

A split of the potential matches is as follows:-



It should be noted that as in previous NFI cycles, the overwhelming proportion of potential matches are revealed as entirely innocent, although some genuine errors are discovered. Typical examples include:-

- the same regular amount paid to a supplier which were separate payments for individual months;
- blue badge or concessionary travel pass holders who had moved house and therefore issuing local authority;
- staff on payroll who were registered supply teachers for more than one authority

- or were also retained firefighters; and
- the same person on more than one payroll where they were councillors at both District and County level;

A number of genuine errors the value of £31,831.86 have so far been identified. As some of these were in relation to pensions, for example, there would have been additional savings if the payment had been continued over future years. Overpayments have been recovered. The NFI work has also resulted in the discovery and investigation of some of the Somerset cases outlined in Appendix 2.

### 3.7. Transparency requirements

The Local Government Transparency Code sets out the minimum data that local authorities should be publishing on fraud, the frequency it should be published and how it should be published. The table below sets out the Code's requirements. This will be updated on the relevant part of our website by the end of January 2018. We also include the January Anti-Fraud audit report and links to SWAP, contact details and to other relevant sites and information.

Minimum to be published	Recommended
<p><b>Annual publication</b> Publish the following information:</p> <ul style="list-style-type: none"><li>• number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers</li><li>• total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud</li><li>• total number (absolute and full time equivalent) of professionally accredited counter fraud specialists</li><li>• total amount spent by the authority on the investigation and prosecution of fraud</li><li>• total number of fraud cases investigated</li></ul>	<p><b>Local authorities should publish:</b></p> <ul style="list-style-type: none"><li>• total number of cases of irregularity investigated</li><li>• total number of occasions on which<ul style="list-style-type: none"><li>a) fraud and</li><li>b) irregularity was identified</li></ul></li><li>• total monetary value of<ul style="list-style-type: none"><li>a) the fraud and</li><li>b) the irregularity that was detected, and</li></ul></li><li>• total monetary value of<ul style="list-style-type: none"><li>a) the fraud and</li><li>b) the irregularity that was recovered</li></ul></li></ul>

### 3.8. Anti-Fraud and Corruption Policy

As part of our annual review of the County Council's anti-fraud and corruption measures, a review has been carried out of our Anti-Fraud and Corruption Policy (Appendix 1). Officers do not see any need for a substantial review of this document at present, other than confirming that it contains both our Policy and our Strategy.

Fraud remains a clearly stated example of gross misconduct within the relevant HR policies.

### 3.9. Anti-Bribery Policy

This is an Annex to the Anti-Fraud and Corruption Policy. This policy was significantly updated ahead of the January 2016 Audit Committee meeting, with help from SWAP.

The auditor's overall view was that there was a **Low Risk** in terms of our controls in relation to these offences, and that any response would only need to be proportionate to that level of risk. Although some of our controls are not "badged" as anti-bribery, there are many effective controls in preventing bribery, such as the examples in the table below.

<b>Area of Potential Risk</b>	<b>Examples of Mitigating Controls</b>
Award of contracts	Use of Pro Contract and Contract Standing Orders Controlled waiver process Decision paper required and consultation with key officers
Award of planning permission	Decisions through public Regulation Committee. Members' standards
Recruitment	HR guidelines and support Panel interviewing
Payment of insurance claims	External support, e.g. legal, brokers Review of insurance files from underwriter

### **3.10. Anti-Money Laundering Policy**

This policy was similarly extensively updated last time and is an Annex to the Anti-Fraud and Corruption Policy. Again, the risk of money laundering against SCC is deemed **Very Low Risk**, which is the same conclusion that a number of other local authorities have also reached.

The CIPFA Guidance for Local Authorities on Money Laundering makes it clear that Local Authorities are not obliged to comply with the Money Laundering Regulations 2007, but the guidance does recommend that public service organisations should embrace the underlying principles of the money laundering legislation and regulations.

The role of Money Laundering Reporting Officer (MLRO) is a specifically set out one to support the legislation in the event of any such case arising.

The Money Laundering Reporting Officer (MLRO) is part of the Strategic Manager – Financial Governance's role. In his absence, this role will be performed by the Strategic Manager – Finance Adults and Children. It will be for the MLRO to investigate any allegations and to liaise with the Police

## **4. Consultations undertaken**

- 4.1.** All policies were reviewed in conjunction with the s151 officer.
- 4.2.** All policies were updated previously with significant support from SWAP.

## **5. Implications**

- 5.1.** Measures contained within this report will be used to protect SCC from fraud in the forthcoming year.

## **6. Background papers**

- 6.1.** “Protecting The English Public Purse 2016” TEICCAF  
“Code of practice on managing the risk of fraud and corruption” CIPFA  
“Fraud and Corruption Tracker Summary Report 2017” CIPFA  
“National Fraud Initiative” Cabinet Office  
“The local government counter fraud and corruption strategy” Fighting Fraud and Corruption Locally  
Previous report to Audit Committee on this subject.

**Note** For sight of individual background papers please contact the report author.