2014/15/16

Thurrock Council
Corporate Fraud Work Plan

Purpose

This fraud response plan forms part of Thurrock Council's anti-fraud and corruption strategy building on existing policies and procedures tailored to tackling the emerging and current threats form fraud. The plan seeks to create an environment where the opportunity for fraud is minimised whilst installing a professional detection service to build a robust deterrence to fraud.

The plan also seeks to provide guidance to people working at Thurrock Council on what to do in the event of identifying a potential fraud to enable them to act without delay.

Method

Thurrock Council's existing Fraud Investigation Department is the responsible service who will deliver the fraud response plan. The department's scope will be widened to apply their proven expert approach investigating benefit fraud to that of all fraud risk that could have an impact on the council. The plan is a working document subject to change and enhancement to respond to the current fraud risks.

The department will deliver the fraud plan by:

- develop an anti-fraud culture across the council

- install robust processes to detect potential fraudulent activity

- investigate all allegations thoroughly taking appropriate sanctions where necessary and obtain redress

The Fraud Investigation Department has also been selected to lead the delivery of an effective counter fraud service for Southend Borough Council. This collaborative 'joint' service will bring many benefits to Thurrock Council in the form of revenue from Proceeds of Crime recovery (as the lead Proceeds of Crime Recovery service provider) as well as a greater investigative resource capability drawn from the Southend Borough Council.

This Fraud Response Plan will ensure that Thurrock Council:

- complies with the requirements of Fighting Fraud Locally, The Local Government Fraud Strategy

- will deliver the Anti Fraud & Corruption Strategy, the Anti Money Laundering Strategy and ensure staff are aware of the Whistleblowing Policy

It also takes account of the good practice guidance set out in:

- ALARM, The Public Risk Management Association Publication: Managing the Risk of Fraud

- CIPFA Publication: Managing the Risk of Fraud

- Audit Commission Publication: Protecting the Public Purse: Local Government Fighting Fraud.

The vision outlined in the Fighting Fraud Locally is that by 2015, local government will be better able to protect itself from fraud and have in place a more effective fraud response.

The approach outlined in this plan is seen as the route to achieving this vision, embed a more collaborative approach to tackle the fraud risks and become more resilient to these threats.

Impact

The successful delivery of this plan informs:

- the Council's Annual Governance Statement

- the Internal Audit's annual opinion on the effectiveness of the Council's risk management, control and governance processes

- the Section 151 Officer when certifying the annual financial statements.

Risk Assessment

The National Fraud Authority (NFA) estimates that fraud in local government amounts to £2.2bn representing 11% of total public sector fraud. Fraud within local government is diverse and, based on research and intelligence, likely to be committed against all types of expenditure including payroll, goods and services, as well as against the taxes and benefits or services administered at a local level.

The National Fraud Authority estimates the £2.2bn to be made up of:

Housing Tenancy Fraud	£900m
Procurement Fraud	£890m
Payroll and Recruitment Fraud	£153m
Council Tax Fraud	£131m
Blue Badge Scheme Abuse	£46m
Grant Fraud	£41m
Pension Fraud	£5.9m

In addition, the Audit Commission's report Protecting the Public Purse' identified abuse of position, payroll / pensions / expenses, false insurance claims and social care direct payments within the six largest fraud types being committed in local government.

Therefore the following nine areas have been identified as potential areas of risk for the Council:

- Grants

- Insurance

- Employees (Including Payroll / Recruitment, Declaration of Interest / Gifts and Hospitality)

- Schools

- Blue Badges

- Council Tax / Housing Benefit

- Direct Payments (Social Care / Personal budgets)

- Housing Tenancy

- Procurement (including tenders and, in due course, contracts).

In practice there is no 'one size fits all' approach to tackling fraud. Therefore adopting the approach outlined above will:

- enable the Council to target its resources more efficiently and manage the risk more effectively

Fraud Work Plan

The Corporate Fraud Work Plan is designed to:

Ensure that the council maintains its 5 key essentials of corporate governance that should be in place in order to manage the risk from fraud, theft, bribery and corruption:
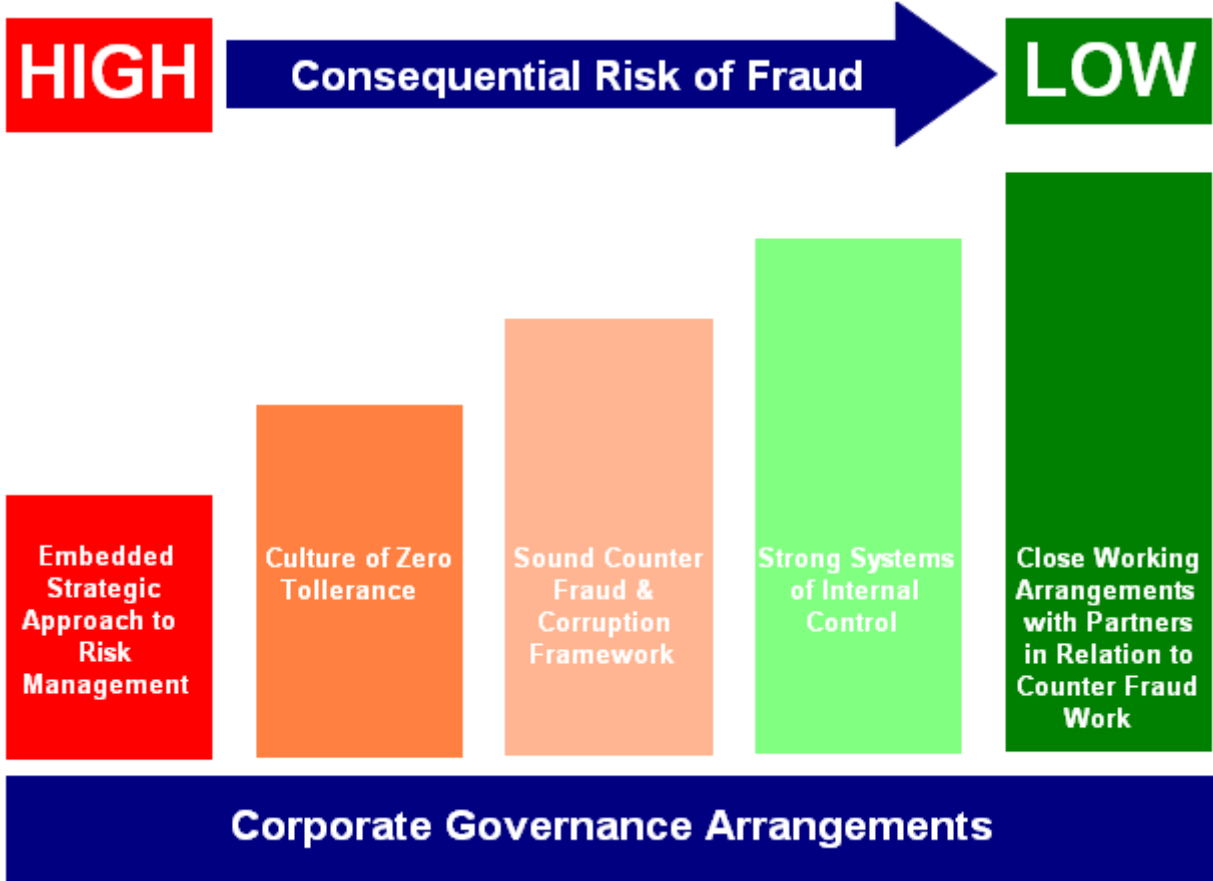
Diagram from the ALARM - Managing the Risk of Fraud

The plan incorporates a number of work streams designed to be completed at a staged and prioritised delivery. The phasing of the work streams includes an improvement in the anti-fraud culture for the deterrence, prevention and detection of fraud in the council.

Fraud Risk

The risk from fraud changes regularly as criminals evolve and adapt to the controls put in place to by organisations to prevent it. Many frauds however follow a pattern.

Understanding the key fraud risks in each of the areas highlighted, will assist in the prevention and detection of fraud, which in turn will help reduce the financial pressure on the Council and, help protect frontline services.

The remainder of the plan outlines some of the key fraud risks in local government as outlined in various national reports produced by the Audit Commission and the National Fraud Authority.

Grants

The risk within grant spending depends on various factors such as the type of grant recipient, the purpose of the grant, the nature of the scheme and the scale of the award. For each type of grant, there is the risk of fraud both from external applicants and from staff. The Council offers a variety of grants relating to housing, school uniforms and disabilities. The nature of fraud associated with grant applications can be placed into three categories:

- misrepresentation by grant applicants

- not using the funds for the purpose for which they applied

- insider enabled fraud in respect of staff who create or assist in the creation of fictitious grant payments.

If successful these will result in a financial loss to the Council. In addition there is a reputational risk of adverse publicity where genuine applicants miss out on funding.

Insurance

There are three main areas in which insurance fraud can be categorised as:

- fictitious losses, incidents or injuries which occur when the third party deliberately presents a false set of circumstances and / or evidence for their financial gain

- staged incidents which occur when a claim is received in respect of damage, loss or injury that has been caused deliberately

- material misrepresentation or exaggeration of loss or personal injury which occur when genuine losses or incidents arise and the third party deliberately exaggerates the true extent of damage sustained or material loss or personal injury.

Employee

Traditionally attention has been centred on external fraud threats however the threats can also come from within. Whilst the majority of employees are honest and

trustworthy there is a minority that are dishonest with the intention to defraud their employer. Employee fraud can be opportunistic in that it can be a completely unplanned attack purely for personal financial gain. However, employee fraud can also be linked to organised criminal networks.

Employee fraud can include:

- those relating to the payroll e.g. ghost employees, the submission of inflated or false timesheets, overtime, mileage or expenses claims and selling data to third parties

- the risk of failing to declare conflicts of interest and or gifts and hospitality.

The opportunity for recruitment fraud in the current financial climate is greater with more candidates applying for fewer jobs. The types of fraud in this area include concealing or falsifying employment history, misrepresenting qualifications and / or concealing unspent criminal convictions.

Schools

Public Concern at Work (the national charity that supports whistleblowers) reports that 14% of its whistleblowing cases come from the education sector. Schools can fall victim to both internal and external fraud threats, for example those relating to;

- recruitment and payroll

- procurement and contracts

- changing of supplier bank accounts details, accounts receivable and payable

- false trading accounts

- finance leases.

The education landscape is changing with the emergence of Academies as well as Foundation and Free schools and with change, the risk of fraud increases.

Blue Badge

In 2011, an exercise carried out by the private company Blue Badge Fraud Investigation Limited, showed that 20 per cent of blue badges were being misused

resulting in estimated losses at £46 million. The misuse of blue badges can be categorised into two groups:

- abuse of badges which includes using a counterfeit badge, a lost or stolen badge or the badge of a deceased person

- misuse of genuine badges which includes using the badge when the holder is not present.

Council Tax

The National Fraud Authority estimated the extent of council tax fraud at £131 million with the key fraud risk being the avoidance of the liability to pay either in full or part. Traditionally the areas of fraud risk are centred on:

- single person's discount

- false claims for exemptions for individuals who are severely mentally impaired

- vacant properties.

However other fraud risks include:

- employees manipulating Council Tax records to divert funds for their own or another person's gain

- money laundering where cash payments of Council Tax are made

- third parties, who are neither the employee of a local authority or a Council Tax payee, who:

  - attempt to collect council tax fraudulently

  - make spurious claims for Council Tax refunds using account details of the genuinely liable party.

Direct Payments

The sums involved in direct payments can be significant. The main risks associated with direct payments are:

- false or exaggerated claims of care requirements which would include a person falsely claiming that they require care, using false identities or exaggerating the amount of the care that they require

- fraud perpetrated directly against the service user by someone managing their funds which would include misappropriation of funds made by way of direct payment to the service user, perhaps by a family member or other trusted person

- fraud perpetrated by the provider of the care commissioned directly by the service user which might include under provision of services (e.g. not providing the hours of care contracted for), over-charging for services provided and duplicate invoicing to multiple invoices to local authorities.

Housing Tenancy

Housing tenancy fraud is the unlawful occupation of social housing, usually to make a profit which can be very lucrative to fraudsters.

The National Fraud Authority estimated up to 50,000 homes may be unlawfully sublet costing the public purse £900 million per annum to house homeless families in temporary accommodation. However the types of fraud in this area are wide ranging and include false homeless applications, unauthorised successions, key selling, abandonment, non-occupancy and Right to Buy.

Dealing with tenancy fraud is important as there are still many families in the local community in need of social housing. There are wider implications to communities when families don't have a stable living environment as:

- they can struggle to create a stable educational environment for their children

- it can:

  - impact on the health and well being of family members, as well as

  - create a lack of social cohesion.

As outlined by an article by ALARM (the public risk management association) called Battling Tenancy Fraud.

To date, there has been a financial incentive for local authorities to deal with tenancy fraud as a way of reducing the temporary accommodation costs. Civil recovery might

be appropriate where illegal sub-letting has been carried out on a commercial basis or where the investigation has revealed assets (e.g. another property) against which judgment can be enforced. This can include:

- rent arrears (usually claimed in possession actions),

- the illegal profit (plus interest) made by the original tenant after paying the proper rent due to social landlord,

- damages for dilapidations,

- fraudulently claimed benefits,

- legal costs, and possibly

- the cost of keeping homeless family in temporary accommodation.

Procurement / Contracting

The National Fraud Authority estimated the extent of procurement fraud suffered by the public sector at £2.3 billion. A further report "Procurement Fraud in the Public Sector" published by the National Fraud Authority in October 2011," concluded that fraud was likely to amount to (at least) 1% of total procurement spend.

Procurement fraud can be perpetrated by those inside and outside an organisation. The nature of procurement fraud differs between the two core stages of the procurement lifecycle; pre-contract award and post-contract award.

Fraud in the pre-contract award phase is complex, often enabled by a lack of compliance with policy and effective due diligence but also involving activity such as collusion and corruption.

Fraud in the post-contract tends to involve overpayments to contractors, through false or duplicate invoicing, payments for substandard work or work not being completed under contract terms. Sharp practice and unlawful activity can also be present in the margins of post-contract award fraud. Examples include overpricing for goods or services.

The change in the way in which local government manages its services and finances will create additional fraud risks. The move from delivering services to

commissioning services from neighbourhood and community groups increases the risk of bribery, financial mismanagement and abuse of funds.

Fraud Awareness & Pro-Active Exercises

WORK STEAMS	DAYS
Grants (High Priority)	
• Identify teams that issue grants to the public and risk assess	15
• Develop proactive fraud exercises for the three highest risk areas	
Insurance	
• Match all insurance claims over £6,000 paid to benefit claimants	5
• Match insurance claims paid to companies against the payroll	5
Employees (High Priority)	
• Check a sample of starter files to ensure appropriate vetting checks have been undertaken	10
• Check national insurance numbers for relevant new appointments to confirm they have the right to work in the UK	5
• Check a random sample of flexi forms and expense claims	10
• Check for potential ghost employees	5
Schools (High Priority)	
• Work with the school allocations team to ensure fraud risks regarding the allocation of school places is minimised.	5
• Develop a programme of work that can be undertaken with schools each year.	5
Blue Badges	
• Data match to identify blue badge holders who have died but their badges have not been returned	5
• Undertake an exercise to investigate lost or stolen badges	5
• Work with Civil Enforcement Officers to identify areas with a high use of Blue Badges	5
• Undertake periodic exercises in these areas to check Blue Badges	

displayed	
• Discuss and correct any systems issues identified by Blue Badge Proactive exercises.	5
Direct Payments (High Priority)	
• Identify payments over £17,000 not paid directly to an individual	5
• Review a 6 month period where payments have been made but no invoices / receipts have been submitted for verification	5
• Match savings declared for direct payments and housing benefit claims	5
Housing Benefit / Council Tax	
• To be determined once the fraud risks are better understood. Training has been organised.	
Housing Tenancy (High Priority)	
• Undertake a data matching exercise for all council and Registered Provider tenants using council data	10
• Review the approach for processing housing applications to ensure the fraud risks are properly mitigated	5
• Support the work of the Essex Housing Tenancy Fraud Forum and attend the quarterly meetings	5
Procurement / Contracting	
• If funds allow, buy in a resource to work with the Counter Fraud Team to look for potential contract fraud, establishing an approach for undertaking such work that can be used again.	

OTHER WORK	
Fighting Fraud Locally, the National Fraud Strategy for LG (High Priority)	
• Update the Code of Conduct, Gifts and Hospitality and Declarations of Interest	5

Fraud Awareness Raising (High Priority)	
• Organise & deliver the 12 awareness raising sessions with staff	15
• Write an awareness article with Corporate Comms for staff	5
TOTAL AWARENESS RAISING AND PROACTIVE WORK	**155**
INVESTIGATIONS	Balance of time
TOTAL ESTIMATED TEAM RESOURCE	**780**