

Counter Fraud Report 2016/17



Contents

1. Introduction and Purpose 3

2. The Risk of Fraud..... 4

3. The National Picture 6

4. The Local Picture: Reported Fraud at WCBC, 2015-16 7

5. Counter Fraud Arrangements at WCBC10

6. Overall Conclusions14

7. Future Priorities and Work Programme 2017-1814

Appendix A - Major National Fraud types16

Appendix B - Main National Fraud Types, Risks to WCBC,17

Appendix C - Reported Frauds at WCBC, 2016-17: Referrals to Internal Audit.....22

Appendix D - Reported Frauds at WCBC, 2016-17: Source and Investigator.....23

1. Introduction and Purpose

- 1.1. The purpose of this report is to consider the risk of fraud to the Council, describe the arrangements that are in place to mitigate the risk and to summarise the incidence of fraud against the Council. Finally, it sets out how the Council will continue to mitigate the risk.
- 1.2. The report is written in the context of the Council's Counter Fraud Policy and Counter Fraud Strategy.
- 1.3. For the purposes of this report, 'fraud' includes theft, embezzlement, misappropriation and any irregularities concerning or misuse of money, documents, computer systems or property.

“There are many words used to describe fraud: Scam, con, swindle, extortion, sham, double-cross, hoax, cheat, ploy, ruse, hoodwink, confidence trick.”

ActionFraud
National Fraud & Cyber Crime Reporting Centre

WCBC Counter Fraud Policy

1. The Council expects the highest standards of propriety and ethics in the delivery of its services and the management of its resources and assets, and will carry out its business fairly, honestly and openly at all times.
2. The Council is opposed to any form of fraud, theft, corruption or bribery and will not permit any of these to be tolerated or perpetuated when undertaking any of its responsibilities, whether the perpetrator be from within the organisation or from outside.
3. The Council will prevent fraud, theft, corruption and bribery by designing and formulating proportionate policies and systems to minimise the risk.
4. The Council will continue to promote the detection and investigation of fraud, theft, corruption and bribery including the application of robust, effective sanctions and recovery procedures where it is identified.
5. The Council is committed to maintaining anti-bribery compliance as 'business as usual'.

Counter Fraud Objectives

1. Increase awareness of counter-fraud responsibilities at all levels within and outside the Council (including those in relation to Bribery).
2. Further embed and support the effective management of fraud risk.
3. Support proactive counter fraud activities across the Council.
4. Minimise the likelihood and extent of losses through fraud and corruption.

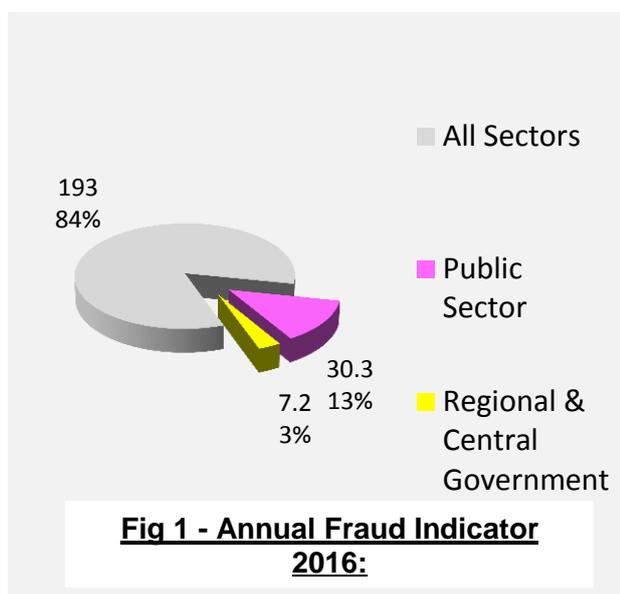
2. The Risk of Fraud

Nationally across the UK, the indications are that the risk of fraud remains considerable and that it is increasing. The specific risk to the Council takes account of this but is considered to be managed through the controls that are in place.

2.1. There is a range of national fraud statistics, some of which are based on estimates, but taken together there is a clear indication that supports the above statement. These include:

a. The **Office for National Statistics** recorded 641,539 fraud offences in England and Wales (all sectors) in 2016 - a 4% increase on the previous year. This is equivalent to 11.4 offences per 1,000 population;

b. The **Annual Fraud Indicator 2016**¹ estimated that annual cost of fraud in the UK (all sectors) could be as high as **£193bn** per year. Public sector fraud is estimated as **£37.5bn** (approximately 5.5% of the total spent by central and local government) while of this, **£7.2bn** is attributed to regional and local government (Fig. 1).



c. Based on their annual **Counter Fraud and Corruption Tracker (CFaCT)** Survey for 2015-16², the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that:

- approximately **£325m** worth of fraud was detected or prevented within the public sector in 2015/16,
- approximately **88,000** cases were investigated in 2015/16 across the UK public sector, representing an average value of £3,700 per case.

d. According to '**Protecting the English Public Purse 2016**³ (PEPP), *English councils recorded frauds totalling £212.4m in 2015-16. Excluding benefit fraud, the investigation of which is undertaken by the Department for Work and Pensions' (DWP) Single Fraud Investigation Service (SFIS), then the total estimated value of local authority fraud is £159.9m.*

¹ The Annual Fraud Indicator is overseen by the UK Fraud Costs Measurement Committee supported by Experian and PKF Littlejohn and is based on research by University of Portsmouth's Centre for Counter Fraud Studies. (Source: City of London Police).

² A survey in which all UK local authorities and other local public sector bodies are invited to participate, which provides comparative data on the types and scale of fraud. The survey for 2016-17 has recently been completed.

³ Produced by the European Institute for Combatting Corruption and Fraud (TEICCAF).

2.2. The key messages for councils contained in ‘Fighting Fraud and Corruption Locally’⁴ (FFCL) are:

- a. Fraud costs - every £1 lost to fraud is £1 that can’t be spent on supporting the community.
- b. Fraud and corruption are a drain on council resources and can lead to reputational damage.
- c. Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same.
- d. There are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes.

2.3. The assessment of the risk of fraud specifically to the Council takes account of the potential for increase, due especially to reduced management and supervisory structures, but is considered to be mitigated to a degree that can be tolerated because of the controls that the Council has in place. The risk is, however, assessed regularly by the Head of Finance and reported to senior management and to the Audit Committee.

“Never take your eye off the ball. Fraud is an evolving threat and as fraud risk doesn’t stand still nor should your organisation’s strategy to combat it”

[CIPFA]

Extract from Finance Department Risk and Control Register (March 2017 update)

There is a risk that:	Agreed Mitigation [What is <i>in place</i>]	Risk Score	What else is required
FN026 - The incidence of fraud against the Council is unacceptably high.	01 - Awareness and compliance with Fin Procedure Rules 02 - Management and supervisory structures 03 - Embedded internal check procedures 04 - Computer system access controls 05 - Management monitoring of system outputs 06 - All Wales sharing of information 07 - Counter Fraud Intranet Page 08- Updated and relaunched Counter Fraud Strategy and Anti Money Laundering Strategy 09 - Fraud risk assessment	C3	Continue to review the effectiveness of the Council’s Counter Fraud arrangements.

2.4. The risks of particular fraud types to WCBC are assessed regularly (3.5 below and Appendix B)

⁴ ‘Fighting Fraud and Corruption Locally: The local government counter fraud and corruption strategy, 2016–2019’, supported by CIPFA and produced by various English local authorities and counter fraud experts.

3. The National Picture

3.1. The major fraud types highlighted in the CFaCT survey referred to above are summarised in Table 1⁵, and where appropriate, trends, and corresponding results from PEPP:

Table 1: Major National Fraud types 2015-16	Counter Fraud and Corruption Tracker (See 2.1c above)					Protecting the English See 2.1d above)		
	Types of fraud	Fraud cases	% of total	Value £m	% of total value	Trend	Fraud cases	Value £m
Council Tax	57,681	65.70	24.1	7.40	↑	79,283	31.4	↑
Housing Benefit	11,902	13.50	40.5	12.5	↓	13,880	52.5	↓
Disabled Parking Concession	6,578	7.50	3.0	0.90	↑			
Housing Tenancy	5,823	6.60	207.9	64.1	↓	2,787	50.2	↓
Right to Buy					↑	2,253	31.4	↑
Debt	1,053	1.20	0.2	0.10				
Business Rates	706	0.80	8.2	2.50	↑	233	2.7	↑
Welfare Assistance	616	0.70	0.1	0.02	↑			
Procurement	613	0.70	6.2	1.92	↑	167	3.85	↑
Insurance Claim	382	0.43	5.3	1.62	↑	787	7.5	↑↓ ⁶
Adult Social Care	323	0.37	2.9	0.90	↑			
No Recourse to Public Funds	251	0.29	8.7	2.67	↓	183	5.7	↓

3.2. The information shown in Table 1 should be interpreted carefully, due to:

- neither survey being mandatory which means that different numbers and sizes of councils have responded,
- distortions due to geographical factors, such as due to Housing in London, or to increases in the number of investigations of particular fraud types,
- there being no set definitions as to what constitutes a particular fraud type (for example incorrect information provided for Council Tax single person discounts may be treated by some councils as an administration compliance issue rather than recorded as a fraud),
- different ways of estimating the value of frauds,

but there is, nevertheless a consistent message concerning certain fraud types.

⁵ Full results are in Appendix A

⁶ Increase in total no. of cases but decrease in total value.

- 3.3. **Housing Benefit fraud** has been the most common fraud type reported by Councils over many years but is reducing nationally (as a local government fraud type) due to the roll out of SFIS (see 2.1d above).
- 3.4. **In respect of Welsh councils:**
- a. CIPFA’s CFaCT provides some comparative data (the survey for 2016-17 has been completed very recently),
 - b. Fraud data from each Council is collected and collated by WCBC. For 2016-17 however, only eight Councils have responded to date, which means that there is only a limited amount of meaningful data for comparison purposes. From the responses that have been received, the most common fraud type (excluding Benefit) is Cash / Accounting.
- 3.5. **The risks to WCBC** of the major national fraud types are regularly assessed by the Counter Fraud Working Group (see 5.6 below), which enables attention to be focused on the higher risk fraud types. The risk register also shows the main preventative controls and information on the incidence of fraud in these areas at WCBC and other Welsh councils (Appendix B).
- 3.6. Table 2 shows the main types of fraud risks for **schools**, based on national survey undertaken in 2014 supported by CIPFA. This information was made available to Wrexham’s schools in 2016-17 by the Head of Education.

Table 2: School Fraud Risks (Schools Fraud Health Check, Mazars, 2014)
<ul style="list-style-type: none"> • Recruitment - of friends and family members • Application - failure of job applicants to declare relationships or criminal records, or false declarations, such as qualifications • Inappropriate Pay Awards – Increments, Honorariums, Bonuses, Allowances • Unofficial Payroll Payments – such as through petty cash or school fund so as to evade tax • Long term sickness - false representation • Collusion / corruption in supplier selection • Leasing - particularly ICT hardware such as whiteboards and photocopiers • Inappropriate Personal Use of Goods or Services • Theft of cash and assets • Premises Rental • False Accounting • Misuse of public money • Bribery

4. The Local Picture: Reported Fraud at WCBC, 2015-16

Non-Benefit Fraud

- 4.1. The Financial Procedure Rules require Heads of Department to immediately notify the Head of Internal Audit of any irregularities or of any instances of improper use of resources, misappropriation or non-compliance with relevant policies and procedures, such as the employee and member codes of conduct.

- 4.2. During 2016-17, 17 fraud allegations were received by Internal Audit. These were of various types, as listed in Appendix C. The most common types were:
- a. Seven concerning the possible theft of cash or stores and equipment,
 - b. Three concerning misuse of ICT facilities,
 - c. Two concerning time management.

Frauds Notified	No.	Proven	Non Compliance proven	Not Proven / N/A	In Progress
Totals - 2016-17	17	2	8	7	0
Totals – 2015-16	31	8	1	21	1
Totals – 2014-15	17	7		10	0
Totals – 2013-14	21	9		12	0
Totals – 2012-13	27	7		20	0

4.3. The two proven frauds in 2016-17 involved:

- a. The deliberate falsification of records, not for any personal financial gain but which could have put future funding arrangements at risk. The employee involved was given a final written warning.
- b. The abuse of the flexi-time system, which also resulted in a final written warning.

4.4. In eight cases, although fraud could not be proven, there was non-compliance with Council policies and procedures. Two of these cases resulted in disciplinary action - one final written warning and one dismissal.

4.5. Further details regarding the nature of the frauds and the current position are shown in Appendix C. This also includes details of a case carried over from the previous year which is now scheduled for a hearing in the Crown Court.

Attempted Frauds

The incidence of attempted fraud against the Council may be significantly higher than the records of frauds that have been investigated, but its occurrence is prevented because of compliance with control procedures and the vigilance of individuals.

There were for example, at least eight known attempts at bank mandate fraud in 2016-17 – where an attempt is made to substitute bank details for an established supplier / contractor in order to fraudulently divert payments. These cases were identified either by Council staff or were brought to the Council’s attention by the firms concerned.

If not acted upon, these frauds could have resulted in the Council having to make additional payments.

Tenancy Fraud

4.6. Additional to the cases summarised in Table 3, were nineteen Housing Tenancy investigations. This accounts for the apparent fall in the total number of cases on the previous year. Arrangements were reviewed in 2016-17 to ensure that all such cases are included in the fraud records.

- 4.7. Six cases were still in progress at the time of writing this report, while two had been proven. These had resulted in:
- a. An application for housing being withdrawn, because the applicant was not living at the address shown,
 - b. An application being given reduced preference, because the applicant had deliberately worsened their housing conditions to try to gain preference.

Benefit Fraud

4.8. Although the Council remains responsible for the administration and payment of Housing Benefit, responsibility for investigating fraud lies with the SFIS (2.1 d above). Any allegations of benefit fraud that the Council receives, such as through 'Stamp Out Fraud' (see 5.19) or through benefits administration, are therefore referred to SFIS.

4.9. The service level agreement with SFIS includes guidelines for expected turnaround times for cases referred by the Council. SFIS may consider any potential frauds referred by the Council, but in practice these are filtered through a referral team. In some cases, therefore, SFIS may decide not to investigate some referrals. If SFIS do investigate and confirm a fraud, they may prosecute, issue a formal caution or serve an Administrative Penalty⁷.

4.10. For the year ended 31 March 2017, 133 cases were referred to SFIS. These consisted of (Appendix D):

- a. 75 cases identified through the Council's 'Stamp Out Fraud' facility,
- b. 48 cases identified as a result of the Council's processing of benefit claims,
- c. 10 cases identified from processing 'Right to Buy' applications, whereby applicants who own assets are also benefit claimants and may have failed to declare the assets as required for their benefit claim.

Benefit Fraud Prevention

In order to help ensure Benefit Claims are processed promptly and accurately the Council was one of six pilot authorities to use the WURTI system (Wider Use of Real Time Information), from October 2016.

This enables benefit assessors, where appropriate, to register an interest on a new claim or change in circumstances and receive earnings or pension information direct from HMRC the following day. Part of this pilot has involved the testing of fluctuating earnings.

This system is being rolled out nationally during 2017/18 and its use should help reduce potential fraud in the benefit system.

⁷ A financial penalty calculated at 30% of the overpaid amount.

- 4.11. Despite a full record of all cases referred to SFIS, there are processing delays within SFIS, and there is still no systematic feedback on cases to the Council.
- 4.12. Although this is national problem, the Council has raised its concerns with the DWP at national level, and is also working at local level to improve results.
- 4.13. The absence of any meaningful feedback on proven benefit fraud cases hinders the Council from taking disciplinary action against employees found guilty of benefit fraud, unless identified by chance, such as through the media. This could result in employees who have been found guilty of fraud remaining in positions of trust. The number of such cases has significantly declined since the transfer of benefit investigation to CFIS, **and in 2016-17, there were no known cases.**

Table 4: Benefit Frauds involving Council Staff	No.	Proven	Not Proven / N/A	In Progress
Totals – 2016-17	0	0	0	0
Totals – 2015-16	2	1	1	0
Totals – 2014-15	5	1	4	0
Totals – 2013-14	6	6	0	0
Totals – 2012-13	7	4	3	0

5. Counter Fraud Arrangements at WCBC

Policies and Strategies

- 5.1. The Counter Fraud Strategy is operated in conjunction with other key elements of the governance framework, such as the Financial Procedure Rules⁸ (FPR), Employee Code of Conduct and Whistleblowing Policy. All three documents are viewed as being robust and have recently been updated to take account of legislative and procedural changes.
- 5.2. The FPR requires the Head of Internal Audit to be notified immediately of irregularities. This is not always complied with and Heads of Department are therefore regularly reminded of this requirement. Failure to notify means that the reasons for fraud may not be disseminated to other managers who may have a similar fraud risk.

“Every pound lost to fraud is one pound less that is available to deliver services.”

[WCBC Counter Fraud Strategy]
- 5.3. Internal Audit continue to work with Human Resources (HR) to ensure that departmental managers are aware of the need to comply with HR policies such as the Disciplinary Policy and Procedure, the Grievance Procedure and the Dignity at Work Policy when investigating potential frauds, such as where employees have been found guilty of benefit fraud without the risks of their ongoing employment being assessed (see 4.13 above).

⁸ Including those for schools

- 5.4. The Council has in place an Anti-Money Laundering Policy which enables the Council to meet its statutory responsibilities⁹ in a way that is proportionate to the risk of the Council contravening the legislation, and to ensure that there are adequate safeguards and reporting arrangements to prevent the Council being used by third parties for the purpose of money laundering.
- 5.5. The Counter Fraud Strategy also clearly sets out the Council’s statutory responsibilities under the Bribery Act 2010. The Council is committed to maintaining anti-bribery compliance as ‘business as usual’, and it does not and will not:
- a. pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements,
 - b. engage indirectly in or otherwise encourage bribery.

Good Practice

5.6. With the aims of focusing counter fraud activity on the areas of greatest risk and of raising fraud awareness across the Council, Internal Audit chair the Counter Fraud Working Group which includes appropriate officers from other services.

Counter Fraud Working Group - Role:

- Provide strategic oversight of counter-fraud activities across all departments
- Provide guidance and assistance to managers and staff
- Review incidences of fraud and effectiveness of controls
- To consider methods of reducing fraud .

5.7. The Council is a member of CIPFA’s Better Governance Forum and their Counter Fraud Centre. Benefits include access to training events and materials and a weekly newsletter

detailing fraud trends, counter fraud developments and details of significant frauds in local government and the wider public sector.

5.8. The Council subscribes to the National Anti-Fraud Network (NAFN). This provides access to comparative data, intelligence alerts and examples of best practice.

5.9. Through regular financial and internal audit management, the counter fraud arrangements are reviewed on an ongoing basis against best practice.

5.10. In particular, the “CIPFA Code of Practice on Managing the Risk of Fraud and Corruption 2014” sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response. The five key principles are shown in Table 5 along with what the Council has done to meet them:

⁹ The Proceeds of Crime Act 2002, Terrorism Act 2000 and Money Laundering Regulations 2007, the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and all amending legislation

Key Principles	WCBC Response
1. Acknowledge the responsibility of the governing body for countering fraud and corruption	The Council is opposed to any form of fraud, corruption or bribery and will not permit any of these to be tolerated or perpetuated (Counter Fraud Policy – see above)
2. Identify the fraud and corruption risks	Appendix B shows the risk assessment.
3. Develop an appropriate counter fraud and corruption strategy	The Counter Fraud Strategy updated and approved by Executive Board in 2015.
4. Provide resources to implement the strategy	Internal Audit has responsibility for co-ordinating the Council's counter-fraud activities. There are limited resources available and so emphasis is placed upon proactive actions to mitigate risk and also awareness raising.
5. Take action in response to fraud and corruption	Investigations are co-ordinated by Internal Audit but are usually carried out within departments. The Counter Fraud Strategy and procedures set out the arrangements for investigating frauds.

- 5.11. Limited resources and reductions in management structures mean that not all recommendations for best practice can easily be addressed. FFCL for example, recommends dedicated counter-fraud resources but this is not currently considered viable in WCBC. It is understood that only three Welsh councils have such resources.
- 5.12. **The Council's arrangements are currently considered to be proportionate to the risk and therefore generally follow best practice, but it is recognised that there is an ongoing need to assess the risk and to monitor awareness and require compliance with those controls essential to mitigating the risk of fraud.**

Prevention and Deterrence

- 5.13. The cornerstone of countering fraud is effective governance across the Council with agreed and embedded policies, procedures and clarity around roles. The ever-changing fraud landscape means that constant proactive monitoring against emerging frauds is essential.
- 5.14. **Management is the first line of defence against fraud** and it is their responsibility to ensure that controls are effective. The Internal Audit role is to co-ordinate and direct but not to be the main defence.
- 5.15. Effective counter fraud controls, such as management and supervisory structures, independent reconciliation procedures and reporting requirements, are therefore promoted and accounted for through the Annual Governance Statement and department risk and control registers. They are also key factor to determining the annual Internal Audit plan.

- 5.16. It is essential that managers and employees are aware of the counter fraud controls that need to be in place and also that they are able to detect fraud and ensure that it is investigated properly. Regular awareness raising therefore takes place through SAM (the staff intranet), bulletins and warnings and advice on specific operational matters.
- 5.17. Where fraud is proven, it is essential that there are effective sanctions and recovery and/or redress so as to provide an effective deterrent. Wherever possible the Council will therefore seek to prosecute or apply other sanctions. Where fraud by employees is indicated, action will be taken in accordance with the Council's disciplinary procedures, and where appropriate, the Council will seek to recover any losses. This is detailed in the Counter Fraud Strategy.

Cyber dependent crime and cyber enabled fraud

The cyber threat landscape is complex and changing rapidly with around 50 identified types of threat.

The biggest risk 12 months ago was users either opening email attachments or clicking on links that delivered viruses or ransomware. Much effort has gone into making users aware of these risks and of the correct procedures to follow.

The recent developments in ransomware however, which allow it to spread without user involvement, have taken the risk to a new level.

At WCBC we have multiple layers of cyber defences, which have seen significant investment over the last 12 months : -

1. Perimeter Firewalls - which block known viruses & prevent unauthorised access to our network thereby safeguarding our data
2. Email & Internet filter/scanners – block access to 'bad' websites; scan & sanitize email attachments, block access to ransomware servers & services.
3. End-user devices (laptops etc.) have Encryption, AntiVirus & Advanced Threat Protection – which block active viruses, encrypt data (so that if devices are lost, data is not compromised) and monitor & 'kill' ransomware before any damage is done.
4. User education – an ongoing task regarding use of complex passwords and awareness of cyber threats.

We are in the process of further enhancing our email protection by the addition of Data Leakage Protection (DLP) which can identify personal or sensitive data being sent in an email and alert the sender (or block the email).

Proactive Fraud Detection

- 5.18. The Council is an active participant in the National Fraud Initiative¹⁰ (NFI). This is a two-yearly data-matching exercise coordinated by the Cabinet Office which identifies potential frauds of various types and enables their investigation on a risk basis in accordance with the guidance provided. During 2017-18, Internal Audit will coordinate the investigation of the matches received through the latest exercise.

¹⁰ Administered by the Cabinet Office

5.19. Internal Audit administers the ‘Stamp Out Fraud’ e-mail address and ‘hotline’ facilities. All notifications are examined and referred to the relevant Council service, or, in the case of benefit fraud, to SFIS. The number of referrals received through ‘Stamp Out Fraud’ during 2016-17 was 110 - an increase of 27 on 2015-16.

How to report fraud		
To report Suspected Fraud against the Council:		
	Fraud other than Benefit	Benefit Fraud (DWP)
Online	stampoutfraud@wrexham.gov.uk	https://www.gov.uk/report-benefit-fraud
Phone	01978 292728	National Benefit Fraud helpline – 0800 854 440, (text phone 0800 328 0512). Welsh speakers can call 0800 678 3722
Post	Stamp Out Fraud, PO Box 2069, Wrexham	NBFH, PO Box 224, Preston, PR1 1GP

6. Overall Conclusions

- 6.1. The Council remains responsible for the administration of Housing Benefit but not for investigating benefit fraud. The continuing poor response from SFIS could result in the Council being perceived as doing little in respect of one of the most common and visible types of public sector fraud. It could also result in fraudulent employees remaining in positions of trust.
- 6.2. The inherent risk of fraud (all types) remains significant and there is little doubt that the potential for fraud is growing, but there is little evidence to indicate that fraud is currently a major problem at the Council or that its incidence is increasing significantly. It is essential, however, that this risk is regularly re-assessed.
- 6.3. Counter fraud procedures at the Council are generally in line with good practice. The resources deployed, however, are limited in terms of conducting proactive fraud audits, but are currently considered to be proportionate to the risk.
- 6.4. It remains essential that every effort is made to mitigate risks effectively. In particular, this means that **Heads of Department must ensure that control processes are effective** and that managers and employees are sufficiently aware of fraud risks and of their responsibilities if possible frauds are identified. These messages are reinforced through the Internal Audit, Risk Management Annual Governance Statement-related processes.

7. Priorities for 2017-18

During the coming year officers will continue to:

- 7.1. Assess the risk of fraud and the effectiveness of the controls required to mitigate it,

- 7.2. Review the effectiveness of the Counter Fraud arrangements against statutory, national and regulatory standards,
- 7.3. Increase awareness of the risk of fraud and of counter fraud procedures in order to maintain a culture where fraud is rare and is seen as unacceptable,
- 7.4. Seek to develop an e-learning package to provide counter-fraud training for senior managers, Members and school based staff,
- 7.5. Work with the DWP at national and local levels in order to obtain an improved service for the investigation of benefit fraud cases,
- 7.6. Support any improved methods of working that reduce the risk of fraud,
- 7.7. Support any joint or national initiatives or take advantage of any possible funding initiatives where this is in the Council's interest.

Table 6: Action against Future Priorities and Work Programme in 2015-16 Counter Fraud Report	
a. Continue to increase awareness of counter fraud procedures	This has continued through bulletins, warnings, the Friday Bulletin and through Internal Audit reporting
b. Develop an e-learning package to provide counter-fraud training for senior managers, Members and school based staff.	This has not been possible due to an external problem concerning e-learning packages
c. Continue to review the effectiveness of the Council's Counter Fraud arrangements following the impact of national changes linked to the introduction of Universal Credit	This continues through ongoing risk assessment, of the overall risks to the Council and of the specific risk types
d. Support the Wales Audit Office proposal to establish fraud reporting publication for all Welsh public sector bodies.	The Wales Audit Office have advised that this initiative is not being developed currently.
e. Provide more detailed guidance for managers	This is continuing through bulletins and warnings.

Appendix A - Major National Fraud types 2015-16 reported in CIPFA Counter Fraud and Corruption Tracker Survey 2016, also showing any corresponding results from Protecting the English Public Purse

Major National Fraud types	Counter Fraud and Corruption Tracker					Protecting the English Public Purse		
	Types of fraud	Fraud cases	% of total	Value £m	% of total value	Trend	Fraud cases	Value £m
Council Tax	57,681	65.70	24.1	7.40	↑	79,283	31.4	↑
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Tenancy					↑	2,253	31.4	↑
Right to Buy								
Debt	1,053	1.20	0.2	0.10				
Business Rates	706	0.80	8.2	2.50	↑	233	2.7	↑
Welfare Assistance	616	0.70	0.1	0.02	↑			
Procurement	613	0.70	6.2	1.92	↑	167	3.85	↑
Insurance Claim	382	0.43	5.3	1.62	↑	787	7.5	↑ ↓ ¹¹
Adult Social Care	323	0.37	2.9	0.90	↑			
No Recourse to Public Funds	251	0.29	8.7	2.67	↓	183	5.7	↓
Mandate	216	0.25	7.2	2.22				
School	182	0.21	0.9	0.26				
Payroll	163	0.19	0.3	0.10				
Recruitment	143	0.16	0.7	0.23				
Pensions	89	0.10	0.6	0.18				
Economic and Voluntary Sector	61	0.07	1.5	0.47				
Expenses	50	0.06	0.5	0.15				
Children's Social Care	29	0.03	0.3	0.09				
Manipulation of Data	24	0.03	n/a	n/a				
Investments	1	0.00	0.2	0.07				
Other	983	1.12	5.3	1.65				

¹¹ Increase in total no. of cases but decrease in total value.

Appendix B - Main National Fraud Types, Risks to WCBC, Key Preventative Controls and Incidence at WCBC and elsewhere in Wales (as at 23 Jan 2017)

Fraud Type	Details	Remarks	Existing Controls	Score (Matrix – p22)	Further Actions	Risk Direction since Oct 2016	Incidence in WCBC in 2016-17 (More details in Appces 2/ 3))	Incidence in Other Welsh Councils in 2016-17
Assets & Stock	<ul style="list-style-type: none"> Theft Failure to account Unauthorised disposal 	More likely due to reduced management and supervisory structures	<ul style="list-style-type: none"> Financial Procedure Rules Employee Code of Conduct Inventory/ stock controls Disposal of Assets procedures 	A3	Maintain awareness raising of risk and controls	➔	One allegation	5 cases reported
Benefit	<ul style="list-style-type: none"> Fraudulent applications, False identities, Failure to declare changes in circumstances. 	<p>National reduction in volume and value</p> <p>DWP responsibility to investigate</p>	<ul style="list-style-type: none"> Service level agreement with FES Sanctions Policy Trained staff and procedures National Fraud Initiative 	A2	<ul style="list-style-type: none"> Continue to review effectiveness of SLA arrangements with DWP Develop targeted data matching (Household Composition Review) 	➔	133 cases referred to DWP	None reported – most don't record because investigations undertaken by DWP
Disabled Car Parking (Blue Badges)	<ul style="list-style-type: none"> False application Abuse 		<ul style="list-style-type: none"> National Fraud Initiative Verification of identity 	D4		➔	One referral	None recorded
Business rates	<ul style="list-style-type: none"> Fraudulent applications for exemptions Reliefs, Unlisted properties. 		<ul style="list-style-type: none"> Liaison with Valuation Office Agreed claim vetting procedures 	B4	Develop targeted data matching (Household Composition Review)	⬇	No known instances	None recorded
Cash Accounting Fraud	<ul style="list-style-type: none"> Theft of cash False accounting Failure to account 	More likely due to reduced management and supervisory structures	<ul style="list-style-type: none"> Employee Code of Conduct Disciplinary Policy Financial Procedure Rules budgetary control Whistleblowing policy Online payments (remove cash transactions) Internal Audit Recommendations/ bulletins Separation of Duties Cash collation service (G4S) 	B3	<ul style="list-style-type: none"> Ongoing awareness raising Internal Audits of financial systems 	⬆	5 cases	11 cases
Commissioning of services	Including joint commissioning, third sector partnerships – conflicts of interest, collusion.		<ul style="list-style-type: none"> Procedure Rules Employee Code of Conduct 	C3		➔	No known instances	None recorded
Concessionary travel schemes	Use of concession by ineligible person, including Freedom Passes.		<ul style="list-style-type: none"> Management and procedural 	D4		➔	No known instances	None recorded

COUNTER FRAUD REPORT 2016-17

Fraud Type	Details	Remarks	Existing Controls	Score (Matrix – p22)	Further Actions	Risk Direction since Oct 2016	Incidence in WCBC in 2016-17 (More details in Appces 2/ 3))	Incidence in Other Welsh Councils in 2016-17
Council Tax	Discounts and exemptions, council tax support.		<ul style="list-style-type: none"> Agreed discount criteria Agreed vetting procedures Potential frauds included in National Fraud Initiative Risk taken account of in regular audits 	A3	Develop targeted data matching (Household Composition Review)	→	No reported instances - partly included in Benefit cases (above)	None recorded but may be included in benefit cases referred to DWP
Cyber dependent crime and cyber enabled fraud	Enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.		<ul style="list-style-type: none"> Perimeter Firewalls Email & Internet filter/scanners. End-user devices (laptops etc.) have Encryption, AntiVirus & Advanced Threat Protection User education 	A3	Further enhancing our email protection by the addition of data leakage protection which can identify personal or sensitive data being sent in an email and alert the sender (or block the email))	↑	No investigations but Council has been subject of attack	None recorded
Debt Fraud	<ul style="list-style-type: none"> Unauthorised write off of arrears Not pursuing arrears 		<ul style="list-style-type: none"> Separation of controls Authorisation of write-offs Management reporting Risk taken account of in regular audits Financial Procedure Rules 	D3		→	No known instances	1 case
Disabled Facility Grants	Fraudulent applications for adaptions to homes aimed at the disabled.		<ul style="list-style-type: none"> Agreed vetting procedures - financial assessments, - OT, Surveyors Contract Management 	D3		→	No known instances	None recorded
Economic and third sector support	Grants –Work not carried out, funds diverted, ineligibility not declared.		<ul style="list-style-type: none"> Agreed vetting procedures - financial assessments, - OT, Surveyors Contract Management 	D3		→	No known instances	None recorded
Employment and Recruitment	<ul style="list-style-type: none"> False references False qualifications Failure to disclose relevant information 	Although a serious governance risk financial impact of fraud considered as lower since previous assessment	<ul style="list-style-type: none"> Safe recruitment policy & Agency Pre Employment Checks Limited Health surveillance & Disciplinary & probationary period 	D3		↓	No known instances	None recorded
Grants (Incoming)	Grant money used for purposes other than purpose of grant - by the Council or by third parties receiving grants from / where administered by the Council)		<ul style="list-style-type: none"> Communication and awareness of grant conditions Monitoring Specifically required audits 	D3		New Risk	No known instances	None recorded

COUNTER FRAUD REPORT 2016-17

Fraud Type	Details	Remarks	Existing Controls	Score (Matrix – p22)	Further Actions	Risk Direction since Oct 2016	Incidence in WCBC in 2016-17 (More details in Appces 2/ 3))	Incidence in Other Welsh Councils in 2016-17
ICT Misuse	Enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments. Access to internet/ social media abuse. Risk is increasing as moving to self service and digital agenda.		<ul style="list-style-type: none"> Management and supervision ICT monitoring Awareness of Acceptable Use' policy 	A3	Group needs a clearer view on nature and scope of this Fraud - to be main focus of next Counter Fraud Group meeting - including guest speaker (KW to arrange)	→	2 cases	2 cases
Insurance	False claims including slips and trips.	Greater awareness of controls in place	<ul style="list-style-type: none"> Insurer has dedicated counter-fraud unit Claim formed emphasise zero tolerance approach to fraud 	D3		↓	No known instances. Investigations may be made by Insurer.t	None recorded
Money laundering	Exposure to suspect transactions.		<ul style="list-style-type: none"> WCBC AML policy 	E2		→	No known instances.	None recorded
Payroll	<ul style="list-style-type: none"> False employees Overtime claims Inflated pay rates Not working hours paid for Expenses. 	Formerly A3 but no evidence of over 50 incidences but likelihood may increase due to loss of experienced senior payroll staff	<ul style="list-style-type: none"> Strict authorisation procedures Exception reporting Robust pre-employment checks except in some schools Participation in National Fraud Initiative 	B3	<ul style="list-style-type: none"> Ongoing review of controls with emphasis on exception reports 	↓	Two cases.	1 case
Procurement	<ul style="list-style-type: none"> Tendering issues Split contracts Double invoicing Corruption 		<ul style="list-style-type: none"> Strict procurement approval procedures Central procurement approval for new exercises over £25k Separation of duties for purchase card scheme Bravo e-tendering system has in-built controls Awareness of false bank changes / invoices amongst creditors staff 	C2	<ul style="list-style-type: none"> Awareness of new frauds through collaborative arrangements Ongoing review of procedures by Internal Audit & management 	→	No known instances	None recorded but may be included in benefit cases referred to DWP
Right to Buy	Fraudulent applications under the right to buy/acquire.		<ul style="list-style-type: none"> Validation of tenancy details 	D3		↓	10 cases referred to DWP (benefit related)	None recorded but may be included in benefit cases referred to DWP

COUNTER FRAUD REPORT 2016-17

Fraud Type	Details	Remarks	Existing Controls	Score (Matrix – p22)	Further Actions	Risk Direction since Oct 2016	Incidence in WCBC in 2016-17 (More details in Appces 2/ 3))	Incidence in Other Welsh Councils in 2016-17
Social care	<ul style="list-style-type: none"> Personal budgets Overstatement of needs through false declaration Multiple claims across authorities Third party abuse Posthumous continuation of claim. 		<ul style="list-style-type: none"> Robust procedures for direct payments / self-directed support Awareness of fraud issues 	C3	<ul style="list-style-type: none"> Review robustness of direct payments and self-directed scheme Ensure management structure is adequate 	↓	No known instances	2 cases
School meals	<ul style="list-style-type: none"> Claiming eligibility when not entitled. Knock on effect to benefits 		<ul style="list-style-type: none"> Links to benefits system 	D3		New Risk	One case of theft	None recorded
School, Placements			<ul style="list-style-type: none"> Verification within Education 	C4		New Risk	No known instances	1 case
Tenancy	Fraudulent applications for housing or successions of tenancy, and subletting of the property.	The annual loss in 2014-15 is estimated as £845m. The number of social homes recovered from tenancy fraudsters decreased slightly, by 1.2% compared to 2013-14 but recovery rates varied considerably according to the type and size of authority. (Protecting the English Public Purse).	<ul style="list-style-type: none"> Validation of tenancy rights and identity when tenancy allocated Dedicated tenancy enforcement team Ongoing validation of tenancies 	C3	<ul style="list-style-type: none"> Ensure management structure is adequate Targeted data matching (not to overlap with NFI) (Household Composition Review) 	→	19 cases investigated – 3 proven.	None recorded
Travel & Expenses		Risk considered as lower than in previous assessment	<ul style="list-style-type: none"> "Authorisation requirements Systems parameters " 	C4		↓	One case	None recorded

↑	Increasing
↓	Decreasing
→	Static

COUNTER FRAUD RISK SCORING MATRIX								
L I K E L I H O O D	A - Very High	Over 50 fraud occurrence per year				CRITICAL		
	B - High	20-50 fraud occurrence per year					WARNING	
	C - Significant	5 - 20 fraud occurrences per year						
	D - Low	1-5 fraud occurrences per year						TOLERATE
	E - Very Low	Fraud occurrences less than 1 case per 3 years						
	PROBABLE IMPACT	Minor	Moderate	Major	Severe			
		4	3	2	1			
	In Terms of:							
	Total Annual Fraud Value / Loss to WCBC	Less than £5k	£5k - £50k	£50k-£250k	>£250k			
	Damage to Public Purse	Minor	Moderate	Major	Severe			
	WCBC Reputation	Negligible	Minor / local Media Coverage	Significant media coverage Large number of complaints	Sustained media campaign for enquiry			
	Action against Members / Management of the Service concerned	Minor Impact	· Disciplinary action · Legal Action	· HoD removal · Ch Ex censure · Qualified External Audit report	· Chief Exec Removal · Members' forced resignation			
	Legal / Regulatory action against Council	Minor Impact	Negative report	· Legal action	· External control imposed · Member surcharge · Major legal action			
	Council Plan Outcomes	Negligible	Minor Impact	Outcomes weakened / delayed	Outcomes undermined / seriously delayed / not achieved			

Appendix C - Reported Frauds at WCBC, 2016-17: Referrals to Internal Audit

Audit Ref No.	Status (Open / Closed)	Fraud - Proven / Not-Proven	Type of Offence	Details of offence	Outcome (Hyperlink if required)
FR15-023	Open	In progress	Theft	Missing cash (£1,200) Inappropriate procurement and use of ICT equipment (£46k)	Crown Court hearing pending
FR16-001	Closed	Not proven	Theft	Stores and equipment	Improved controls
FR16-002	Closed	Not proven	ICT Misuse	Personal use of email in work time	No misuse found – management action
FR16-003	Closed	Not proven	Bogus Invoices	Sent to schools for ‘Information Commissioner Registration’.	Trading Stds examined but invoice had a disclaimer.
FR16-004	Closed	Not proven	Attendance at work Assets abuse	Abuse of Flexitime and using Council vehicle for personal use	Not substantiated
FR16-005	Closed	Not Proven*	Data access	Unauthorised amendment of documents	Advice provided
FR16-006	Closed	Not Proven*	Theft	Missing Cash (£150)	Improved controls / re-application of existing controls
FR16-007	(See FR16-015)				
FR16-008	Closed	Not proven	Blue Badge Abuse	Reason no longer valid	No contravention
FR16-009	Closed	Proven	Falsification of Records	No personal financial gain. Could have risked future funding.	Internal disciplinary – Final Written warning
FR16-010	Closed	Not Proven*	ICT Abuse	Allegation: employee selling Fake clothing on the intranet - not paying VAT	Trading Standards warning
FR16-011	Closed	Not Proven	Theft	Missing personal money (£65)	Police informed
FR16-012	Closed	Not Proven*	Missing cash	Petty Cash not reconciled for numerous years – reported by new management. At least £51 not accounted for.	Improved controls / re-application of existing controls
FR16-013	Closed	Proven	Attendance at work	Abuse of flexitime – 85 hrs (£1,523)	Internal disciplinary – Final Written warning
FR16-014	Closed	Not Proven*	Travel Claims	Travel claim forms not completed correctly & claiming excessive mileage	Internal disciplinary – Final Written warning for failure to comply
FR16-015	Closed	Not Proven*	Theft	Theft of school meal and personal money (£400)	Internal disciplinary - dismissal (intention to steal)
FR16-016	Closed	Not Proven*	ICT Abuse	Accessing non-work related websites	Minor - Management action
FR16-017	Closed	Not Proven*	Theft	Missing income / change float (£500)	Improved controls / re-application of existing controls

* Fraud not proven but non-compliance with procedures proven

Appendix D - Reported Frauds at WCBC, 2016-17: Source and Investigator

Source of Allegation / Referral		Investigated by				
		WCBC Management / Internal Audit	Police	DWP (Benefit)	Housing (Tenancy Investigations)	Housing / Trading Standards (Illegal music, drugs, other)
Stamp Out Fraud	110	1	0	75	0	34
Whistleblowing / Informants	4	4	0	0	0	0
Referred from Human Resources	2	2	0	0	0	0
Referred from Accountancy	1	1	0	0	0	0
Referred from Employing Departments	9	9	0	0	0	0
Housing Tenancy Investigations	19	0	0	0	19	0
Housing Right-to-buy investigations	10	0	0	10	0	0
WCBC Benefit Claim Processing	48			48		
Total	203	17	0	133	19	34
Results		See Appendix 2		Not known (see report)	6 cases still open 2cases proven 11 cases not proven	Not known