COUNTER FRAUD STRATEGY 2016

Bath & North East Somerset Council

Audit West

Contents

If you require clarification on any aspect of the Counter Fraud Strategy or require this document in a different format, please contact Internal Audit.

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This policy will be reviewed on an ongoing basis and at least once a year.

Foreword

Counter Fraud Strategy 2016

Welcome to the Council's Counter Fraud Strategy 2016 which has been endorsed by the Audit Committee.

This document supports The Local Government Counter Fraud and Corruption Strategy *"Fighting Fraud & Corruption Locally"*.

In the public sector, fraud diverts valuable resources away from those who need them most, our customers.

Counter fraud is integral to the culture and working practices of the Council and historically it has had effective counter fraud arrangements. However, both the Council and the country face unprecedented challenges over the coming years as public spending cuts are introduced to reduce the national deficit and key services are delivered by partners, contractors and volunteers.

Aim of the Counter Fraud Strategy

This Counter Fraud Strategy aims to direct the Council's counter fraud resources on the key areas of fraud risk and bring together the Council's Anti-Fraud and Corruption Policy, the Anti-Money Laundering Policy and the Anti-Bribery Policy under one umbrella strategy.

It aims to improve the integration of fraud **prevention** and **detection** into the culture and working practices of the Council, its partnerships, contracts and the civic sector.

The Strategy requires that adequate and effective measures are put in place to **correct** any identified fraud or irregularity and all perpetrators are severely **punished**.

The Strategy continues the Council's stance in maintaining a **zero tolerance** approach towards fraud and irregularity and doing more to **deter** it.

The Heightened Threat of Fraud

There are three conditions that are commonly found when fraud occurs:
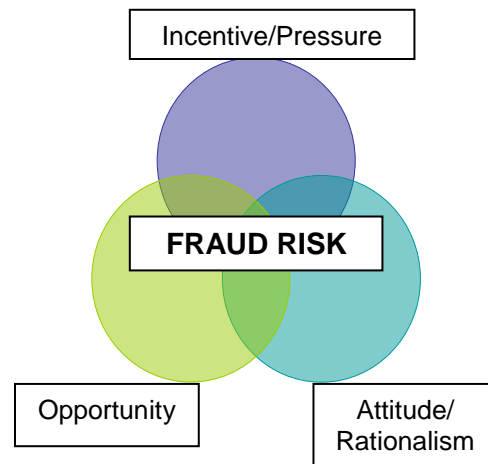
The perpetrators experience some **incentive** or **pressure** to engage in misconduct. There must be an **opportunity** to commit fraud and the perpetrators are often able to **rationalise** or justify their actions.

The current economic climate in the United Kingdom and the Government policy of significantly reduced public spending have the potential to **increase the risk of fraud** as never seen before in the public sector, due to:

· Increased **incentives** or **pressures**, primarily as a result of employees' fear of losing their job

· More **opportunities** to commit fraud as internal controls are weakened or in some cases removed

· People's ability to **rationalise**.

As the Council makes significant cuts in its current and future budgets, it is essential that it continues to maintain strong defences against fraud and irregularity, directing its resources most effectively to mitigate the risk of fraud. This will involve working closely with partners, contractors and volunteers to overcome any barriers to effective fraud fighting and making the best use of available information and intelligence.

The Scale of Fraud in the UK

National Fraud Statistics

Figures published by the National Fraud Authority (NFA) in 2013 indicates that fraud maybe costing the United Kingdom **£52 billion** per annum.

This can be broken down as follows:

	£ billion
Public Sector	20.6
Private Sector	21.2
Individual	9.1
Charity Sector / Other	1.1

Fraud in the Public Sector

Fraud costs the Public Sector in the United Kingdom **£20.6 billion** per annum.

This can be broken down as follows:

	£ billion
Tax	14.1
Central Government	2.5
Local Government	2.1
Benefit and Tax Credits	1.9

The Audit Commission's Protecting the Public Purse 2014 identified detected fraud to the value of £188m following a comprehensive survey of local authorities; this was fraud after the event and did not include potential losses.

These figures also do not take into account the indirect costs of responding to and dealing with fraud.

National Fraud Initiative (NFI)

The National Fraud Initiative is a sophisticated data matching exercise to prevent and detect fraud, and is facilitated by the Cabinet Office under statutory powers.

It was established in 1996 by the Audit commission and is now undertaken every two years. Over 1,300 mandatory and voluntary participants provide 8,000 datasets.

The Council undertakes work both internally and with external bodies to investigate the data matches identified.

Detection of Fraudulent Activity

Knowing the potential extent and reach of fraud is crucial in the fight against it. However, there are still many areas where potential fraudulent activity and fraud loss data is not available, is incomplete or does not exist at all.

Even allowing for inaccuracies in the measurement of fraud risk, local government is under attack from fraudsters and the scale of losses to local authorities is significant.

Public Sector Fraud and Emerging Risks

CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government, the health, education and charity sectors.

The latest edition of the Local Government Fraud Strategy, "Fighting Fraud and Corruption Locally 2016-19" was published in March 2016 by CIPFA). It aims to help councils tackle fraud and prevent losses of over £2bn a year.

It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. The report also draws on the best practices of councils already successfully tackling fraud and offers practical anti-fraud advice.

The strategy is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. It is supported by the Department for Communities and Local Government (DCLG), the Local Government Association (LGA), local government representative organisations and council chief executives.

Every local authority is encouraged to implement the recommendations to help identify and address their own levels of fraud.

The National Response to Serious and Organised Crime

The National Crime Agency (NCA) was created in October 2013 and published the National Strategic Assessment of Serious and Organised Crime in May 2014.

The NCA leads work against serious and organised crime, coordinating the law enforcement response, ensuring action against criminals and organised criminal groups is prioritised according to the threat they present

Action Fraud is the national reporting point for fraud and cybercrime. This change was made by Government to ensure that one body was responsible for the whole process of recording and analysing reports of all types of fraud.

Fighting Fraud & Corruption Locally

The CIPFA document "*Fighting Fraud & Corruption Locally 2016-19*" identified the main fraud types:

· Council Tax

· National Non Domestic Rates (NNDR)

· Procurement

· Blue badges

· Schools

· Internal

· Personal Budgets

· No recourse to public funds

· Identity assurance

They have also identified the following other fraud risk areas:

· Money Laundering – exposure to suspect transactions

· Insurance fraud – including slips & trips

· Disabled Facility Grants

· Concessionary travel schemes

· Commissioning of services – including third sector partnerships

· Cyber and e-enabled fraud

It is important that local authorities should be aware to the rapidly changing environment of fraud and should continuously be scanning for new and developing fraud risks.

Approach to Counter Fraud

Five Key Elements

The Council has adopted an approach to counter fraud based around five key elements:
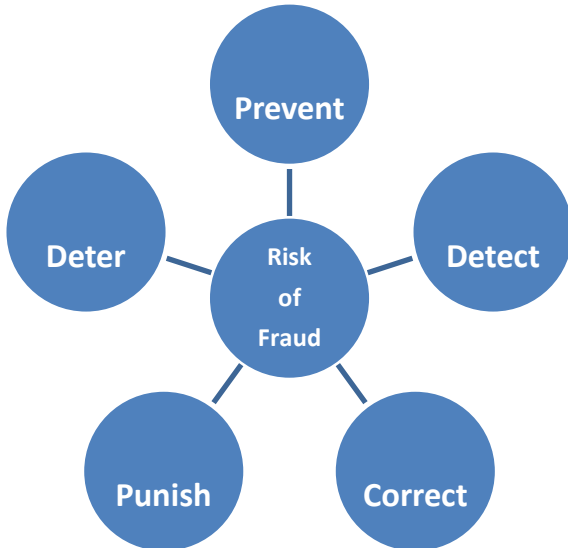
Each element is a fundamental component of the Council's **zero tolerance** approach to fraud and irregularity:

Prevent

Stopping frauds and irregularities occurring in the first place.

Detect

Increasing the likelihood of finding frauds and irregularities.

Correct

Promptly stopping frauds and irregularities and recovering any losses incurred by the Council.

Punish

Strengthening sanctions and penalties for those persons committing frauds and irregularities.

Deter

Publicising tough punishments and the increased likelihood of being caught.

Investigation and Sanction

The council will respond to all reports of fraud and/or irregularity and where necessary a full investigation will be carried out. If required, we will work with the police and/or other agencies.

In certain types of investigation, the Council may (where necessary) apply for authorisation to complete covert surveillance under the Regulatory Investigations Powers Act (RIPA).

Where cases of fraud and/or irregularity are proven, appropriate action will be taken against the perpetrators:

For internal fraud, disciplinary action will be taken. In addition to this, where appropriate, the case will be referred to the police for criminal investigation / sanction.

For external fraud, where appropriate the case will be passed to the police for further criminal investigation and sanction.

Recovery of losses will also be pursued where appropriate, using the Proceeds of Crime Act (POCA).

Publicising Proven Cases

Where appropriate, the Council will share and publicise cases where fraud committed against the Council have been proven.

Fraud Risk Assessment

Risk Assessment for the Counter Fraud Action Plan 2016-17

All potential areas of fraud risk were subject to a detailed risk assessment by Internal Audit.

The risk assessment considered existing workstreams from previous years and potential areas of fraud risk identified by the Cabinet Office, CIPFA Counter Fraud Centre and the National Fraud Authority (NFA).

The exercise was carried out in order to focus available counter fraud resources on those workstreams considered to be at the greatest risk of fraud.

Each potential workstream was assessed against the following parameters:

- Any statutory or regulatory requirements
- Budget reduction and/or income generation requirements for 2016-17
- Requirement for provision of assurance
- Existence of anti-fraud culture/awareness
- Reputation management
- Ease of prevention, detection, correction, punishment and determent
- Resource requirements (*Anticipated expenditure and staffing costs*)
- Inclusion in the annual internal audit assurance plan for 2016-17.

Equalities & Diversity Assessment for the Counter Fraud Action Plan

The Counter Fraud Strategy has been reviewed to ensure it meets the Council's high standards in its Equalities and Diversity policy. This work continues and will be monitored throughout the life of the Counter Fraud Strategy.

Counter Fraud Action Plan 2016-17

Action	Outcome
Strategy, Policies and Procedures	
Develop a Counter Fraud Strategy as the 'umbrella strategy' to bring together all the policies detailed below. Consider 'current trends' from Fighting Fraud Locally 2015 and the Fraud & Corruption Tracker Survey results. Annual review of the following documents: · Anti-Fraud and Corruption Policy · Money Laundering Policy. · Anti-Bribery Policy · Whistleblowing Policy Update policies as required and where possible align policies of North Somerset and B&NES Councils.	All documents are "fit for purpose" and incorporate details of new or revised risks of fraud or irregularity and any national changes. All changes to documents approved by the Audit Committee. All updates to policies to be promoted through Staff Matters and the intranet. Relevant policies available on the public website.
Develop an e-form that allows the wider public to report suspicions of fraud and/or irregularity at a time and place convenient to them. Ensure that relevant policies are available to the public.	Increase in good quality internal/external referrals where fraud or irregularity is suspected.
Counter Fraud Awareness	
Use Staff Matters to publicise any potential frauds that may affect the wider council. Targeted fraud alerts to be used for notifying of possible fraud attempts in specific areas. Review and update the counter fraud information available on the intranet, considering any changes in best practice and current fraud trends. Develop a list of 'possible frauds' and controls that would reduce the risks, to be made available on the intranet.	Staff, Members, and contractors have enhanced knowledge and awareness of the risk of potential fraud or irregularity. Increase in good quality internal/external referrals where fraud or irregularity is suspected.

Counter Fraud Action Plan 2016-17

Action	Outcome
Training programme: · Implementation of fraud awareness e-learning module for all new staff · Specific counter fraud awareness training provided to those persons working within areas of increased risk of fraud or irregularity · Promotion of counter fraud awareness to all staff and contractors of the council. Consider having a promotional stand at all event days. · Develop a fraud awareness training programme for delivery to schools and academies.	
Communication of successful fraud or irregularity investigations and outcomes.	
Corporate Investigations (Internal and External):	
Intelligent sift of all referrals to ensure a formal investigation by Internal Audit is the most appropriate course of action. Prompt referral to the Police of any potentially serious fraud or irregularity *(in liaison with Service Management and S151 Officer).*	Issue of formal Internal Audit reports, incorporating recommendations for disciplinary or management action and/or practice and process changes, to senior management. Appropriate disciplinary or management action taken by senior management in respect of all cases of proven fraud or irregularity. Full recovery (*if cost effective*) from an individual or insurance policy of all losses suffered by the Council as a result of fraud or irregularity.
Data matching referrals: · National Fraud Initiative (NFI) · Intelligent internal data matching to generate fraud or irregularity referrals, e.g. staff names and addresses matched to creditor payments names and addresses. Investigations to be completed by Internal Audit in conjunction with Human Resources and/or relevant managers within Council directorates.	

Counter Fraud Action Plan 2016-17

Action	Outcome
Emerging Risks *(reviewed and updated continuously throughout the year, e.g. National Fraud Strategy).*	
Continuously review national documentation / press releases and information shared through the West of England Chief Internal Auditors Fraud Sub-Group to keep abreast of all emerging fraud risks. Where necessary; · Assess the level of risk to B&NES · Ensure robust processes are in place to minimise the opportunity of fraud · Identify all cases of possible fraud and investigate · Action taken if necessary	Issue of formal Internal Audit reports, incorporating recommendations for management action and/or practice and process changes, to senior management. Appropriate action taken by senior management in respect of all cases of proven fraud or irregularity.
Internal Audit Service	
Internal audit reviews to include testing programme to assess the fraud risks and identify fraud and/or irregularity.	
Attendance at meetings of the regional West of England Chief Internal Auditors Fraud Sub-Group.	Adequate assurance provided (Annual Assurance Statement). Senior management and the Audit Committee have timely and sufficient information about the Counter Fraud Action Plan 2016-17.
Active involvement in regional and national data capture and benchmarking exercises.	
Regular progress reports for senior management, e.g. Statutory Officers, and the Audit Committee.	