

Audit Committee – 27 March 2014

8. Counter Fraud, Theft and Bribery Strategy & Counter Fraud Action Plan

Portfolio Holder: Councillor Tim Carroll (Finance and Spatial Planning)
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Purpose of the Report

To introduce the Counter Fraud, Theft and Bribery Strategy, and the related Action Plan, so that Audit Committee is made aware of the content and proposals. The Action Plan sets out the counter fraud tasks to be completed in the financial year beginning April 2014.

Recommendations

The Audit Committee is asked to:

- 1) Consider the Counter Fraud, Theft and Bribery Strategy, as well as the related Action Plan, and to endorse the adoption of the documents by Full Council;
- 2) Note the key matters which will impact on the ability to deliver the Action Plan, particularly the resources available for counter fraud work.

Background

Corporate fraud refers to any fraud with direct financial losses for the organisation concerned, and it has grown in importance in recent years as more evidence of its existence and the financial losses it causes has been found in Local Government and the wider public sector. The high risk areas for corporate fraud include procurement, housing tenancy, housing application, council tax discounts/exemptions, employee and payroll, insurance and grants; areas previously not considered to be fraud risks.

The annual fraud loss to local government was estimated to be £2.2 billion in 2012, and it was also revealed that 75% of the corporate fraud identified nationwide was found only by 25% of the councils (Audit Commission, 2013). From these figures, the government conclude that many local authorities underestimate the extent of corporate fraud, and assume that because they have not found any, it does not exist at their council. The Audit Commission argue that if all councils were to adopt similar 'best practice' counter fraud techniques, then comparable detection results would be achieved at the other 75% of councils, as well as substantial sums being recovered for the public purse.

Alongside these developments, the National Fraud Authority has created a fraud loss profile tool, which uses returns on detected corporate fraud to estimate the extent of fraud loss a council with a similar profile would be expected to find in high fraud risk areas such as council tax discount/exemptions, procurement, housing tenancy fraud, and payroll.

Such statistics can be overplayed of course, but our results do indicate that a significant amount of fraud may be lying undetected at SSDC, and notably, no corporate fraud has been found. It might be thought that low detection rates show our current control and

audit framework is working, but instead, low detection highlights that we need to rethink our counter fraud activities, and to try other approaches which have been successful elsewhere.

1) Corporate Fraud, Theft and Bribery Strategy & Counter Fraud Action Plan

In order to address corporate fraud, as well as to promote a zero-tolerance environment, councils were urged to adopt a corporate counter-fraud strategy which would identify their framework for deterring, preventing, detecting and punishing such fraud. They were also advised to undertake an overall assessment of fraud risks within their local authority.

There has been widespread consultation on the Counter Fraud Strategy and its related Action Plan, with Management Board approving both documents on the 3rd March 2014. After consultation with Audit Committee, the Strategy and Action Plan will progress to District Executive and then on to Full Council in May 2014 for adoption.

It has become clear during the preparation of the Strategy that service managers need to have a greater awareness of corporate fraud risks. There were no risks categorised as 'Fraud' on the TEN risk management system and, in examining all the risks entered on TEN, it was found that only 2 had any specific reference to fraud matters. It is clear that identifying and addressing corporate fraud risks should be a priority training issue for managers.

2) Key matters impacting on ability to deliver the Action Plan

In the Action Plan, some of the tasks identified involve relatively simple procedural changes which will not have significant resource implications, whilst others have resources already identified, such as the time allocated to SSDC for counter fraud work by the South West Audit Partnership (SWAP). The Fraud and Data Intern has been tasked with achieving several targets around the formulation of a corporate fraud framework, such as revising the Counter Fraud Policy and drafting a Sanctions Policy, with some support from the Fraud and Data Manager. There are, however, still some resourcing gaps and some other key factors and challenges which impact upon our ability to deliver the Action Plan. These factors are:

1. The Department of Work and Pensions (DWP) decision to remove the investigation of benefit fraud from the remit of local government, meaning our fraud investigation staff (2.6 FTE) will transfer to the DWP's Single Fraud Investigation Service (SFIS) at some point between October 2014 and March 2016;
2. Although this change means we will lose responsibility for investigating benefit fraud, we retain responsibility for the Council Tax Support Scheme (CTSS) which replaced Council Tax Benefit. If we transfer all of our investigative expertise and capacity to DWP, we will face difficulties in investigating the fraud arising from CTSS in particular;
3. Although SWAP carry out fraud audits, it is unlikely that they have the full skill set necessary to undertake criminal investigations, and to ensure procedural matters are followed when dealing with criminal offences;
4. The workload of the Fraud and Data Manager inhibits significant involvement in the delivery of the Action Plan, other than in guiding and directing the Fraud and Data

Intern, and in actively participating in the Somerset Tenancy Fraud Forum campaigns;

5. The Fraud and Data Intern has been invaluable in bringing this work forward, but is scheduled to leave by the 6th October 2014. Due to the substantial workload, all the tasks allocated to him will not be achieved by that date, and so it is proposed that his contract is extended until the 6th April 2015. Funding is available from the District Executive Contingency Fund, and this matter will be covered in detail in a report to the District Executive which takes place on the 1st May 2014;
6. Lastly, in recognition of the loss of in-house investigative resources when council staff transfer to SFIS, the Department of Communities and Local Government (DCLG) have announced that £16.6 million will be divided between councils to target corporate fraud. Although it remains unclear what our share of this allocation will be, if the funding is substantial enough, it could be used to allow some investigative capacity to be retained.

Financial Implications

There are no direct financial implications in endorsing the adoption of the Counter Fraud Strategy and Action Plan, although if the Intern's post is extended for 6 months, additional salary costs of around £7,000 will be incurred.

Background Papers

Counter Fraud, Theft and Bribery Strategy
Counter Fraud Action Plan
