ANNUAL FRAUD REPORT 2016/17

Contents

# 1. UNDERSTANDING THE FRAUD THREAT

National picture

1.1 The CIPFA Counter Fraud Centre publication, 'Fighting Fraud Locally', is a local government strategy for countering fraud and corruption. Using estimates prepared by the National Fraud Authority, 'Fighting Fraud Locally' estimates fraud losses across all sectors in the UK to be £52 billion. Of this total, £20.6 billion is thought to be perpetrated against the public sector. Local government losses are considered to be around £2.1billion, the breakdown of which is shown in the chart below.

Table 1 – Estimated losses to fraud in local government (£m)
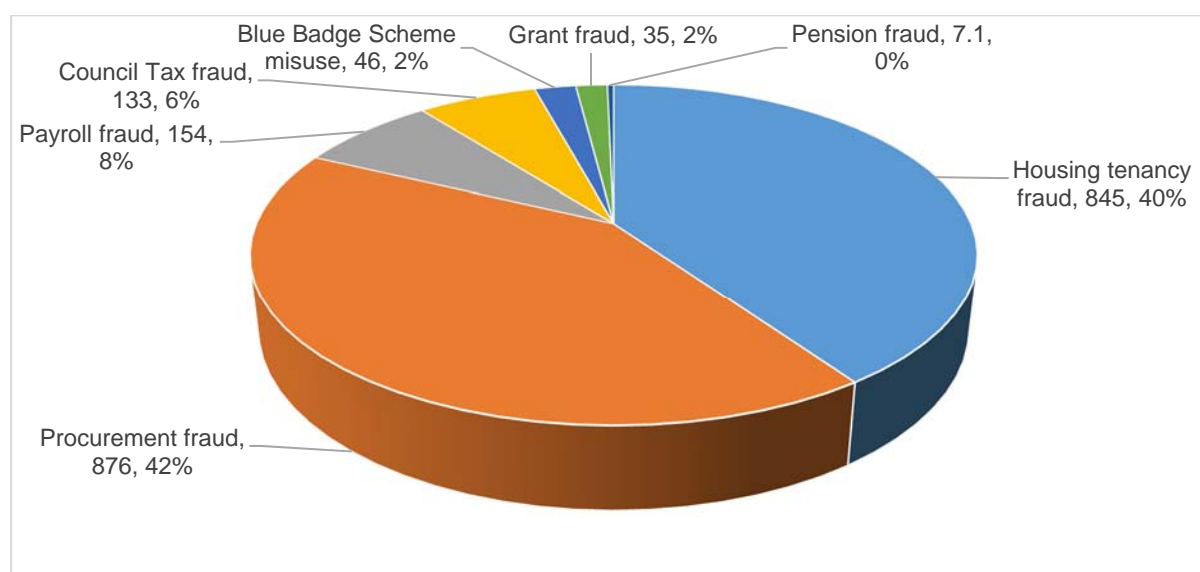
1.2 Serious and organised crime is a threat to our national security and the Government's Serious and Organised Crime Strategy published in 2013 reported that it costs the UK more than £24 billion a year. Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Organised crime groups may seek to benefit from public services in different ways, including to raise money through fraudulent activity and to use businesses/services used by Local Authorities to launder criminal proceeds. In this way public money can be lost and can ultimately fund other illegal activity.

Local threat level

1.3 The Council's Fraud Risk Assessment (FRA) has been updated to assess the nature of the fraud and corruption threats the Council currently faces. The assessment draws on a number of information sources:
- 'Fighting Fraud & Corruption Locally 2016-2019' - this sets out the CIPFA Counter Fraud Centre's assessment of the key threats facing local councils
- Periodic fraud alerts from organisations such as the National Anti-Fraud Network and the National Fraud Intelligence Bureau – these are received regularly throughout the year by the Internal Audit service.
- The incidence of suspected fraud cases at the Council
- Discussions with key managers across the Council to understand inherent and residual risk levels in services that are vulnerable to fraud

- The Internal Audit service's knowledge and review of the core systems of control in place within the Council

1.4 The FRA highlights the following to be the key areas of risk for NCC:

Internal threats
a) Misappropriation of cash and bank balances
b) Inappropriate use of NCC assets
c) Submission of fraudulent claims for overtime and expenses
d) Non-compliance with tendering regulations

External threats
e) Submission of invoices for services not delivered or goods not received
f) Misuse of direct payments
g) Deprivation of assets to increase Council support for care costs
h) Pension fraud
i) Invalid use of travel and parking permits
j) Cyber security threats

An update on the planned actions in 2016/17 to strengthen the Council's controls against fraud is set out below in section 3, along with further details of actions planned for 2017/18.

1.5 During 2016/17, the incidence of fraud cases was a feature of the quarterly meetings of the statutory officers to discuss governance issues, and cases were also reported through to the Corporate Leadership Team as part of Internal Audit's quarterly update reports.

2. INCIDENCE OF FRAUD AT NCC

2.1 In compliance with the Transparency Code, NCC publishes summary information on its website each year concerning its arrangements for countering fraud. This includes the number of fraud cases investigated each year. The published details for the past three years are the following:

Table 2 – Published Transparency Code information

|	2014/15	2015/16	2016/17
No. employees involved in fraud investigation	25	21	28
No. professionally accredited fraud specialists	0	0	0
Cost of employee time investigating fraud	£44,168	£43,087	£109,073
No. fraud cases investigated	28	40	162

2.2 The significant change in both the cost of investigating fraud and the number of cases detected in 2016/17 is due to developments in the Adults, Social Care, Health and Public Protection Department. Over the past year, the department has targeted its resources more intensely on the pro-active review of direct payments and on financial assessments to detect concerns around possible cases of deprivation of assets. This has returned the positive results presented above.

2.3 The increase in the number of detected cases of fraud over the past three years can also be attributed to a number of other positive actions the Council is taking to tackle fraud:

- Improved awareness of potential fraud through the Council's re-vamped Counter-Fraud and Counter-Corruption Strategy & Policy, and its Fraud Response Plan
- Improved intelligence over the incidence of fraud in the Council
- Improved systems for detection, through targeted reviews in the services at the greatest risk of fraud.

2.4 These developments are further reflected in the following chart, which analyses the trend over the past five years in the number and value of detected frauds. The cases included are those which resulted in action being taken: to prevent a payment; to stop an entitlement; to raise a debt; or to take internal disciplinary action.

Table 3 – Trend in the incidence of detected fraud at NCC
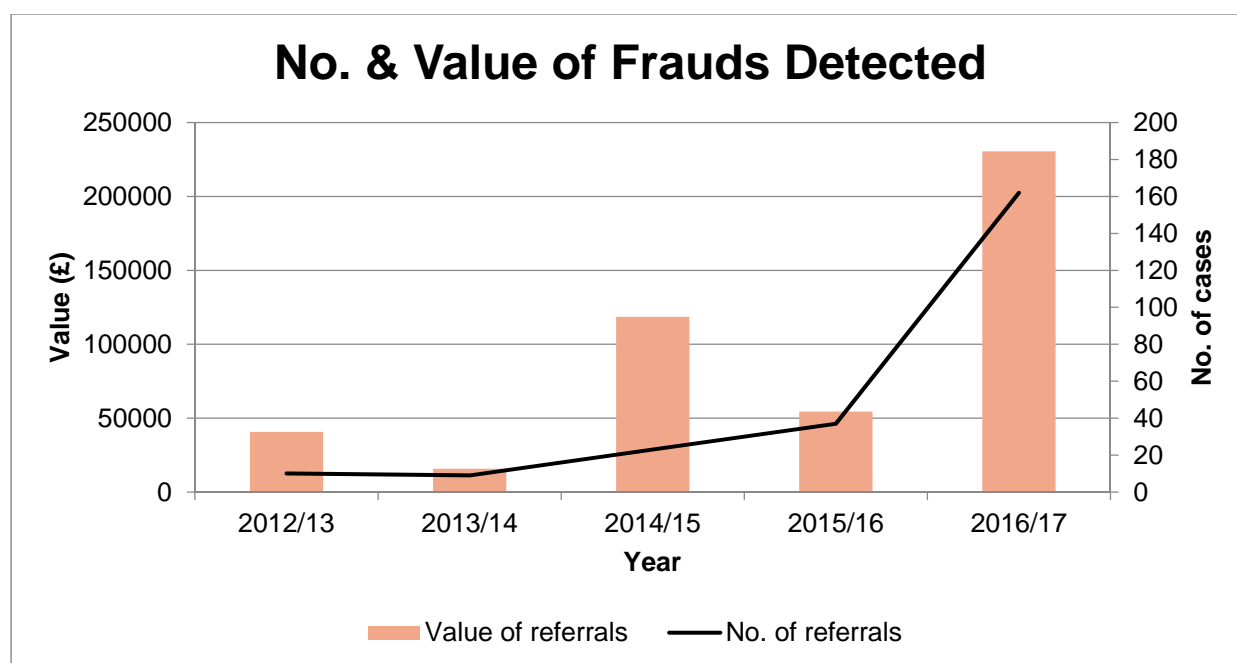
2.5 In the 2016/17 financial year, the following fraud cases were detected:

Table 4 – Detected fraud cases in 2016/17

Nature of fraud	Detection source	Amount involved (£)	Response status
NCC – Internal			
Cash deficit in imprest account	Management overview	118	More stringent control procedures have been introduced. The shortfall has been written off.
Plagiarism as part of social work qualification training	Vetting and review by qualification assessment panel	Potential future earnings on gaining qualification	Final written warning issued

Nature of fraud	Detection source	Amount involved (£)	Response status
Incorrect recording of flexitime hours	Management controls	475	Caution issued
NCC – External			
Non-notification of deceased service user (residential care)	Cross-checking against Health records	20,284	Full recovery of over-claim against ongoing payments
Deprivation of assets for adult social care assessments (92 cases)	Financial assessment	Not readily available	The service users are now paying the full cost of care. The saving to the Council from these cases is not readily available but this information will be captured for 2017/18.
Misuse of Direct Payments (15 cases in 2016/17)	Internal monitoring procedures	81,395	To date, £24,000 has been recovered and repayments are continuing.3 cases are currently referred to the police and further referrals remain under consideration as the cases continue to be investigated.
Misuse of Blue Badges - disabled parking permits (16 cases in 2016/17)	Civil Parking Enforcement Officers	n/a	Warning letters sent out to 16 pass holders
Suspected fraudulent insurance claim (3 claims flagged in 2016/17)	Internal monitoring procedures	36,400	2 claims have been successfully repudiated. The 3rd is under investigation.
Inadequate record-keeping and general practices by a contractor engaged to deliver social care assessments to the Council	Whistleblower	n/a	Almost all of the allegations were considered to be unfounded. One further case of potential misuse of a direct payment is to be investigated further during 2017/18.
Inappropriate employment practices and bogus claims for payment by a contractor engaged by the Public Health service	Whistleblower	45,000	The employment practices are being investigated further with the company. Invalid claims for payment amounting to £45,000 were identified and a credit note has been received from the company.
Failure to notify the death of Personal Budget recipients	National Fraud Initiative	5,848	These are two early cases identified from review of the latest NFI matches, and both are being pursued.
Duplicate payments to suppliers (27 payments stopped in 2016/17)	Use of dedicated analytical software	£41,000	Duplicated supplier invoices may have been submitted in error as well as with fraudulent intent.
Attempt to set up a bogus direct debit on a Council bank account	Rejection by the Council's bank	unknown	The request did not match the bank mandate therefore it was rejected. The record of the request is not available, therefore it has not been possible to quantify the amount involved or to confirm whether this was a case of fraud or administrative error.

3. NCC'S ASSESSED RESILIENCE TO FRAUD

3.1 The Transparency Code information presented above in Table 2 identifies that 28 staff were involved in the investigation of fraud in 2016/17. This comprised staff working in the following areas of service:
- Internal Audit
- Adults' Social Care, Health & Public Protection (ASCH&PP) department's Adult Care Financial Services and Reviewing Team
- Human Resources
- Risk and Insurance
- Blue Badge (parking)
- Business Support Centre

ASCH&PP

3.2 An emerging area of fraud for Councils is some misuse of direct payments (although this remains a small proportion overall) and intentional deprivation of assets to increase the extent of Council contributions to social care costs. The deployment of ASCH&PP staffing resources has been particularly effective over the past 12 months in rooting out cases of the misuse of Council funds by some service users. Whilst the numbers of fraud cases, as identified through concerted auditing and reviews, has increased, the numbers remain relatively low compared to the overall number of service users receiving services funded by the Council, including those people that have a direct payment. The cases picked up represent less than 1% of all service users receiving care. Nonetheless, the department is continuing its efforts in detecting cases of fraud where they are suspected.

3.3 A pilot reviewing team, working alongside the Department's Adult Care Financial Services team, returned significant outcomes in 2016/17. The Department plans to continue with this approach in the coming year. The Internal Audit team is currently working with the department as it looks to consolidate and strengthen its approaches to the investigation of suspicious cases.

Risk and Insurance

3.4 The Risk and Insurance Team actively work to detect fraudulent claims. According to the Association of British Insurers (ABI) in 2015 insurance fraud cost the industry £1.36b over 130,000 detected cases. Most claims against the Council are public liability claims relating to accidents on the highway network, for example pot hole damage to vehicles and trips on the footway. The ABI estimates fraudulent claims of this nature to amount to £390m, with 26,900 cases detected in 2015.

3.5 The Risk and Insurance Team uses a 48 point checklist to screen all new liability claims where damages are valued at over £1,000. Claims are then flagged as presenting either a red, amber or green risk of fraud. Of approximately 600 liability claims received in 2016-17, only three were scored as red or amber for fraud.

Business Support Centre (BSC)

3.6 Analytical software is deployed prior to the processing of all accounts payable runs to identify potentially duplicate payments. Any accounts identified as potential duplicates are removed from the run for further investigation, thereby achieving a strong preventative safeguard against fraud.

3.7 Another area of vulnerability is the potential for continuing payments in respect of deceased pensioners. The National Fraud Initiative is a key source of assurance for this, but the BSC is active in looking for ways to identify and deal with such cases as promptly as possible. The benefits of an externally provided mortality screening service remains under review, and action is being taken to link the Local Government Pension Scheme to the Council's 'Tell Us Once' facility. Both options should ensure the Council receives timely and accurate information about pensioner deaths.

Internal Audit

3.8 The Council does not have a staffing resource dedicated exclusively to the investigation of fraud, nor does it currently have any staff professionally qualified as fraud investigators. The Internal Audit Service has been successful recently in recruiting two senior auditors, one of whom has a formal qualification in the investigation of fraud. It is intended to progress this over the coming year towards becoming a CIPFA Accredited Counter Fraud Specialist.

3.9 The approved audit plan for 2017/18 incorporates a number of assignments that will contribute to the update of the FRA. In addition to these audits, the Internal Audit Plan contains an allocation of days each year for carrying out pro-active counter-fraud work in support of the Council's Counter-Fraud Strategy. In 2016/17, the internal publication, 'Team Talk', was used to draw staff attention to the Council's Counter Fraud & Counter Corruption Strategy, and to the Fraud Response Plan.

3.10 Staff vigilance and the promotion of a strong counter-fraud culture are key elements in tackling fraud. The Internal Audit team will continue with its pro-active programme in 2017/18, with consideration of the use of interactive e-learning to further encourage staff awareness and engagement. The Head of Internal Audit has drafted a refresh of the Council's Anti-Money Laundering Policy, and this will be scheduled for consideration by the Policy Committee.

3.11 In relation to the Fraud Response Plan, colleagues in Human Resources are progressing a protocol for ongoing dialogue over, and formal referral of, suspected fraud cases to the Police. This is being developed as part of a wider review of the Council's employment policies, through joint working with the recognised Trades Unions and managers in the Leadership Development cohort. A suite of policy statements are to be presented to Committee for approval, following which work on the protocol will be completed. In the interim, the Fraud Response Plan provides clear pathways for the reporting of suspected fraud cases. Human Resources, Internal Audit and Legal Services colleagues are consulted to determine the earliest opportunity at which to involve the Police.

Cyber Security

3.12 The Council's technology estate comprises more than 600 applications over cabled, wireless, 3G and 4G networks, using more than 11,000 devices. A range of security measures are deployed to provide for digital and physical asset protection. Through a combination of: security policies, guidance and governance arrangements; security infrastructure and asset protection; and security monitoring, the ICT Division works to safeguard the Council against ever evolving cyber-attacks. During 2016/17 the ICT Division successfully defended 4,478 attempts, approximately 12 every day, to compromise the Councils systems or data through virus, malware and malicious website attacks. An analysis of the attacks per quarter during 2016/17 is shown in Table 5 below.

Table 5 – Cyber-attacks defended in 2016/17

Attack	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Virus/Malware	726	365	378	470	**1,939**
Malicious Websites	446	950	663	480	**2,539**

Serious and organised crime

3.13 An internal self-assessment against a serious and organised crime checklist, issued jointly by the Home Office and the Department for Communities and Local Government, identified an action plan for implementation in 2017/18. Central to this is closer liaison with Nottinghamshire Police to gain a clearer understanding of the level of threat posed to the Council.

4. ACTION PLAN

4.1 Table 6, below identifies the actions required to implement the future requirements from the Annual Fraud Report.

Table 6 – Actions required from Annual Fraud Report

Action	Timescale	Responsibility
1. One member of staff to complete the CIPFA Accredited Counter Fraud Specialist qualification.	March 2018	Head of Internal Audit
2. Develop the use of interactive, counter-fraud e-learning to promote engagement and learning among all staff.	March 2018	Head of Internal Audit and Head of Human Resources
3. Complete the refresh of the Anti-Money Laundering Policy and Procedures for consideration by the Policy Committee.	September 2017	Head of Internal Audit
4. Commence a refresh of the Counter Fraud & Counter Corruption Policy & Strategy and the Fraud Response Plan.	September 2017	Head of Internal Audit
5. Provide insight and responses to fraud alerts with the dissemination of information through 'Team Talk' updates	2 releases in 2017/18	Head of Internal Audit
6. Complete the referral protocol with Nottinghamshire Police for local liaison arrangements	September 2017	Head of Internal Audit and Service Director Customers & Human Resources