

# ANNUAL FRAUD REPORT 2017/18

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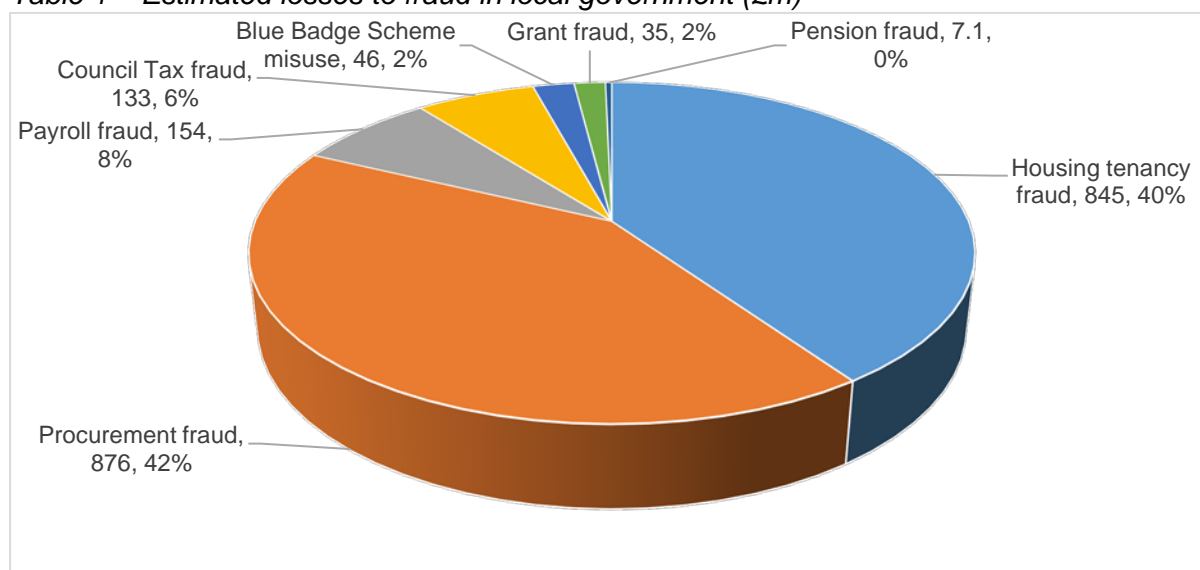
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# 1. UNDERSTANDING THE FRAUD THREAT

## National picture

- 1.1 The CIPFA Counter Fraud Centre (CCFC) 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 £2.1 billion, the breakdown of which is shown in Table 1.

*Table 1 – Estimated losses to fraud in local government (£m)*



- 1.2 Serious and organised crime continues to be a threat to our national security. The Government's Serious and Organised Crime Strategy, published in 2013, reports that it costs the UK more than £24 billion a year.
- 1.3 The United Kingdom – Anti-Corruption Strategy 2017-2022 sets out a vision of a safer, more prosperous and more confident future based on concerted UK action against corruption. It establishes an ambitious and long-term framework for tackling corruption. The strategy builds on the UK's 2014 'Anti-Corruption Plan' and the considerable work already being taken forward across government, in particular through the National Security Strategy, the Serious and Organised Crime Strategy, the Action Plan for Anti-Money Laundering and Counter-Terrorist Finance, and the Fighting Fraud and Corruption Locally Strategy.
- 1.4 The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission, and the subsequent transfer of benefit investigations to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions (DWP). The CCFC leads and co-ordinates the fight against fraud and corruption across public services, by providing for thought leadership, along with counter fraud tools, resourcing and training. The Council is a member of the CCFC and has regular access to intelligence, resources and comparative statistics. One member of the

Internal Audit team has now completed formal qualification training with the CCFC and has become an accredited Counter Fraud Specialist.

- 1.5 The CCFC estimates that, across local authorities, more than 75,000 frauds, with a total value of £336.2m, were detected or prevented in 2016/17. The number of fraud cases investigated or prevented dropped in this year, but the average value per fraud increased from £3,400 to £4,500; the reason for this could be that local authorities are focusing on cases with a higher financial value.
- 1.6 Annually, the Council contributes to the CCFC's Counter Fraud and Corruption Tracker (CFaCT), which provides a national picture of fraud, bribery and corruption in local government. It also shows how the sector is dealing with the challenges and helps identify actions that the sector needs to take to reduce the threat posed by fraudulent activity. Over 70% of County Councils responded to the latest survey, CFaCT 2017. This latest CFaCT reveals that:
- Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas.
  - Adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated, compared with £3.0m in 2016.
  - The highest number of investigations related to council tax fraud (76%), with a value of £25.5m.
  - The highest value area of fraud is housing, with an estimated total of £263.4m.
  - 38% of organisations who responded have a dedicated counter fraud service.
  - Cyber crime has a high profile in the media and poses a growing challenge to a sector becoming ever more digital in terms of service delivery. The threat calls on the shared expertise of fraud and IT teams, but primary responsibility for cyber security is not always clearly assigned. Respondents to the CFaCT 2017 reported that only three fraud teams (2.3%) were responsible for cyber risk, whereas 106 (80%) reported that IT or the chief information officer held responsibility. In 2014 three quarters of respondents told CFaCT that cyber risk was not included in the corporate plan. This year half the respondents had carried out a cyber risk assessment in the previous 12 months.
- 1.7 The CFaCT has identified the main types of fraud based on the volume of investigations or value of the financial loss. This data is distinguished between local government types and the key statistics for County Councils are extracted in Table 2.

*Table 2 – CIPFA estimates of local government fraud*

| Fraud Type                          | Volume | Value (£m) | Comments   |
|-------------------------------------|--------|------------|--|
| Disabled Parking (Blue Badge)       | 5,751  | £4.3       | NCC report lower instances than the national picture                           |
| Adult Social Care                   | 446    | £5.6       | 5% of adult care frauds investigated involved an authority employee.           |
| Adult Social Care – personal budget | 264    | £2.8       |  |
| Adult Social Care - other           | 182    | £2.8       |  |
| Insurance Fraud                     | 371    | £5.1       | Includes 6 cases of organised crime, the average value increased year on year. |

| Fraud Type  | Volume | Value (£m) | Comments   |
|---|--------|------------|--|
| Procurement   | 197    | £6.2       | Joint work with the Competition & Markets Authority has commenced in this area |
| Payroll   | 248    | £1.0       |  |
| Expenses  | 75     | £0.1       |  |
| Recruitment   | 46     | £0.2       |  |
| Pensions  | 228    | £0.8       |  |
| <b>Other</b>  |        |            |  |
| Fraud relating to the manipulation of data and bank mandates both doubled to 57 and 325 cases respectively                  |        |            |  |
| Serious and organised crim cases increased to 26 cases, and 23% of organisations recognise this within their risk register. |        |            |  |

### *Local threat level*

1.8 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 the intelligence set out in all of the national sources identified above. In addition to these, the FRA also draws on the following information sources:

- 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

1.9 The FRA highlights the following to be the key areas of risk for NCC (including schools):

#### Internal threats

- Misappropriation of cash and bank balances
- Inappropriate use of NCC assets
- Submission of fraudulent claims for overtime and expenses
- Non-compliance with procurement processes

#### External threats

- Submission of invoices for services not delivered or goods not received
- Misuse of direct payments
- Deprivation of assets to increase Council support for care costs
- Pension fraud
- Invalid use of travel and parking permits
- Cyber security threats

An update on the planned actions in 2017/18 to strengthen the Council's controls against fraud is set out below in section 3, along with further details of actions planned for 2018/19.

1.10 During 2017/18, 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. Updates on progressing the investigation of suspected cases are also discussed at the regular meetings between the Head of Internal Audit and the Chairman of the Governance & Ethics Committee. The outcome of completed cases are reported to the full Committee as part of the Head of Internal Audit's periodic updates.

## 2. INCIDENCE OF FRAUD AT NCC

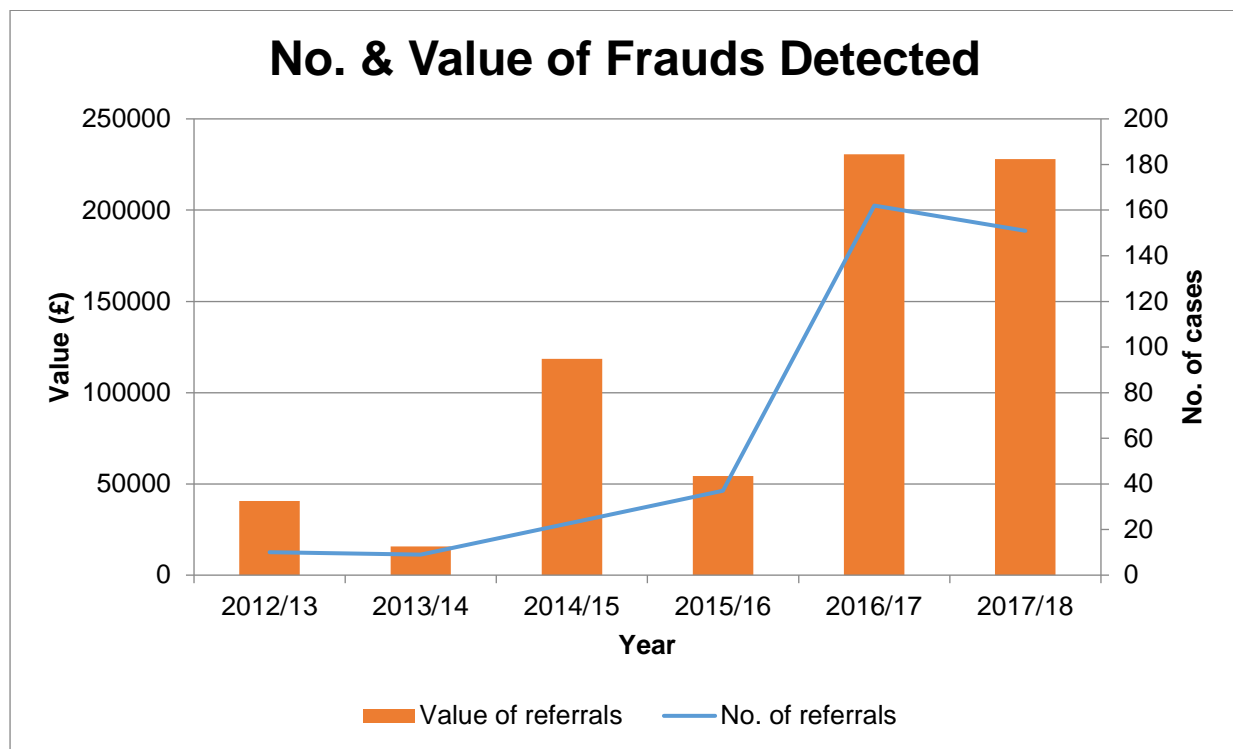
- 2.1 In compliance with the Transparency Code, NCC publishes summary information on its website each year concerning its arrangements for countering fraud. This includes the number of fraud cases investigated each year. The published details for the past three years are shown in Table 3.

*Table 3 – Published Transparency Code information*

|   | 2015/16 | 2016/17  | 2017/18 |
|---|---------|----------|---------|
| No. employees involved in fraud investigation   | 21      | 28       | 28      |
| No. professionally accredited fraud specialists | 0       | 0        | 1       |
| Cost of employee time investigating fraud       | £43,087 | £109,073 | £71,614 |
| No. fraud cases investigated                    | 40      | 162      | 151     |

- 2.2 The developments within Adults, Social Care & Health Department reported last year are embedded in the financial assessment practice. Coupled with reduced input in specific cases investigated by other departments, this has reduced the cost of employees investigating fraud.
- 2.3 The trend for an overall increase in the number of detected cases of fraud over the past three years can continue to be attributed to a number of other positive actions the Council is taking to tackle fraud:
- Positive corporate commitment to counter fraud through revised strategy and policy documents;
  - Review and dissemination of trend analysis for potential and proven frauds from national research and intelligence; and
  - Targeted reviews in the services at the greatest risk of fraud.
- 2.4 These developments are further reflected in the chart in Table 4, which analyses the trend over the past five years in the number and value of detected frauds. In 2017/18 the value was £227,924 (2016/17 - £230,520). 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 4 – Trend in the incidence of detected fraud at NCC



2.5 In the 2017/18 financial year, the fraud cases shown in Table 5 were detected. A number of additional cases were under active investigation at the time of compiling this report. Once concluded, the Government & Ethics Committee will be updated with the details.

Table 5 – Detected fraud cases in 2017/18

| Nature of fraud                                   | Detection source                         | Amount involved (£) | Response status   |
|---|--|---------------------|---|
| <b>NCC – Internal</b>                             |  |                     |   |
| Day Services Centre                               | Internal control processes               | 85                  | Strengthened internal control processes   |
| Schools – Bank Accounts and Credit Cards          | Internal banking control                 | 499                 | Advice and guidance provided for stronger control of use of cards and reconciliations   |
| <b>NCC – External</b>                             |  |                     |   |
| Misuse of Direct Payments (13 cases in 2017/18)   | Internal monitoring and review processes | 43,280              | Recovery from previous years' misuse cases continues. Of the new cases 3 have resulted in recovery action and potential police referral   |
| BSC – attempted to obtain fraudulent payment (*1) | BSC – internal challenge control process | 19,274              | BSC – employee vigilance initiated direct action to prevent the fraudulent request being processed. The case was referred to Action Fraud |
| Concessionary Travel Passes                       | NFI and management controls              | 20                  | NFI data and management controls to review mortality data   |

| Nature of fraud  | Detection source                     | Amount involved (£) | Response status  |
|--|--------------------------------------|---------------------|--|
| Suspected fraudulent insurance cases (5 cases in relation to 2017/18)  | Internal insurance procedures        | 35,000              | 2 claims have been successfully repudiated and 3 other claims are currently being assessed                                       |
| ACFS - Deprivation of Assets (*2) (91cases in relation to 2017/18)   | Financial assessment challenge       | 94,188              | Robust challenge to the inclusion of assets within the financial assessment has resulted in reduced contributions by the Council |
| Misuse of Blue Badges – Disabled parking permits (10 cases in 2017/18)   | Civil Parking Enforcement Officers   | Unquantifiable      | Warning letters sent out to 10 pass holders  |
| Duplicate payments to suppliers (16 payments stopped in 2017/18)   | Use of dedicated analytical software | 34,080              | Internal control processes prior to physical payment have detected duplicate payments enabling cancellation                      |
| Duplicate payment to a supplier  | National Fraud Initiative            | 1,498               | Recovery of payment that had not been stopped despite being identified by dedicated analytical software                          |
| School bank account cheque manipulation  | Banking procedures                   | unknown             | Investigation being undertaken by school's bankers   |
| Cyber Crime attacks  | ICT controls                         | unquantifiable      | Internal and External defence systems employed to detect and deter cyber attacks   |
| <b>Total</b>   |                                      | <b>227,924</b>      |  |
| <b>Notes</b>   |                                      |                     |  |
| (*1) – This type of fraud is generally referred to as an 'I am your boss' scam and involves criminals making inappropriate requests for payments by using the identity of senior officers. |                                      |                     |  |
| (*2) – The financial assessment challenge has resulted in changes to contributions by the Council for cases identified. We have estimated the potential full year effect for such cases.   |                                      |                     |  |

### 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 2017/18. This comprised staff working in the following areas of service:

- Internal Audit
- Adults' Social Care & Health (ASCH) department's Adult Care Financial Services and Reviewing Team
- Human Resources
- Risk and Insurance
- Blue Badge (parking)
- Business Support Centre

#### **Governance and Members**

3.2 The Council's Governance and Ethics Committee provide the focal point for member engagement with the counter fraud message and commitment. Members are engaged

in the review of policies and guidance material that underpin the coverage across the Council.

- 3.3 Internal Audit have periodically reported plans and progress reports to members over the year and facilitated regular meeting with the Chair to review progress and developments. Members have also been provided with insights on nationally emerging issues such as the Local Government Association's publication, 'A councillor's workbook on bribery and fraud prevention'. Internal Audit's Counter Fraud Specialist will develop plans and undertaken work to mitigate the risks identified in these publications as part of the risk assessed audit coverage.

#### ***ASCH***

- 3.4 The misuse of direct payments and intentional deprivation of assets to increase the extent of Council contributions towards care costs continue to be significant areas of fraud. This corresponds with the risks identified through CFaCT.
- 3.5 Cases of intentional deprivation of assets are being identified through the challenge process that is embedded within the financial assessment process. The number of cases identified is consistent with the previous year and the impact of robust challenge to the inclusion of assets within the financial assessment has reduced the contribution made by the Council. The savings to the council from this approach have been estimated to establish the potential full year impact.

#### ***Risk and Insurance***

- 3.6 The Risk and Insurance Team continually work to detect fraudulent claims through the use of the 48-point checklist to screen all new liabilities on a risk-ranking basis. Five claims have been detected through this approach during the year with two cases being repudiated and three others under ongoing assessment.

#### ***Business Support Centre (BSC)***

- 3.7 BSC continue to use analytical software to identify potential duplicate supplier payments prior to each payment run being processed, therefore acting as a pro-active, preventative fraud control. During the year approximately £35,000 of duplicate payments were detected and withdrawn from payment. Time is not spent to investigate these cases further to determine whether the duplicates arose through attempted fraud or error.
- 3.8 BSC are a high risk area for targeted scams from external sources, given their access to payment processing data. Internal Audit continue to provide BSC with alerts raised by national bodies such as NFIB and NAFN to ensure that staff remain vigilant to potential risks. This continued dialogue has resulted in several attacks being defended, the most noticeable being an attempt to obtain a payment of some £19,000 by means of a fraudulent instruction to the Accounts Payable Team purporting to be from the Council's Chief Executive. This type of attack is generally referred to as an 'I am your boss' scam. This was successfully prevented due to the vigilance of staff within BSC.
- 3.9 We reported in last year's annual report that 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 and during the year Internal Audit have worked with BSC to trial the use of facilities called Re-Check and App-Check, developed by the Cabinet Office to review matches on a more regular basis. The trial of Re-Check



provided promising results and BSC will be undertaking a Re-Check exercise in June 2018 to update data and matches on deceased pensioners. There is potential that this data could also be used for Adult Care, Blue Badge and Concessionary Fares counter fraud checks.

### ***Schools Finance***

- 3.10 Schools Finance continue to provide advice to schools on financial and governance issues and liaise with Internal Audit in relation to potential fraud cases. Internal Audit provide advice and guidance directly to schools, through head teachers and office managers. Internal Audit have been involved in various cases during 2017/18 which have involved: time recording; catering income; and inappropriate use of the school bank account.
- 3.11 Internal Audit operate a routine to rotate visits to schools on a five year basis and cover controls in relation to potential fraud risks. Internal Audit also disseminate fraud warnings to schools to alert them to risks of fraud. Internal Audit aim to develop the mapping of fraud cases over 2018/19 in order to identify intelligence and therefore address fraud risks on a more thematic basis.

### ***Blue Badge and Concessionary Travel***

- 3.12 Blue badge and concessionary travel fraud continue to gain national recognition. The blue badge team continue to be vigilant to potential fraud and abuse, which has resulted in the issue of warning letters to holders. The team also participate in the National Fraud Initiative to consider matches identified.
- 3.13 Concessionary travel similarly remain aware of the potential for fraudulently obtaining and using passes. Participation in the National Fraud Initiative has identified cases resulting in cancellation of passes and management control processes have resulted in similar actions.

### ***Internal Audit***

- 3.14 The Council now has a professionally qualified fraud investigator following his successful completion of the CIPFA Accredited Counter Fraud Specialist qualification. This now provides a sound basis on which to disseminate skills and learning across the rest of the Internal Audit team.
- 3.15 The Fraud Risk Assessment (FRA) has been refreshed and identifies a number of proactive counter fraud areas where specific work can be undertaken to address risks. In turn the FRA has also identified areas where work can be incorporated within the 2018/19 internal audit plan.
- 3.16 The Council's Counter Fraud Strategy and supporting policies, such as the Council's Anti-Money Laundering Policy, Whistle-Blowing Policy and Fraud Response Plan, have been reviewed and refreshed during the year in light of changes in legislation.
- 3.17 The Internal Audit Team has continued to promote a counter fraud culture through the dissemination of information and advice and through efforts to better co-ordinate the counter fraud message with other teams in the Council, notably with Trading Standards and the Registration Service.

- 3.18 Internal Audit have undertaken reactive counter fraud work in relation to a number of cases that have emerged over the year. These have ranged from the provision of advice to working alongside management to gather evidence for presentation to the police or as part of disciplinary procedures.
- 3.19 During 2017/18 internal audit have continued to be the key point of contact for the biennial National Fraud Initiative (NFI) whereby data from the Council is matched with data from other public sector organisations. Matches from a series of data sets are identified where there is potential for fraudulent activity with Key Reports and Recommended Matches being identified for priority consideration.
- 3.20 The latest exercise identified is nearing conclusion and identified 16,764 matches of which 6,465 were recommended matches. The Council has reviewed all these matches and others that represented a higher risk to the Council or based on a sample basis. In total over 8,300 matches have been reviewed which has resulted in recording of £7,366 of fraudulent activity. We have also identified that there are some areas where checking of matches could be enhanced and we will work with key contacts in departments to develop coverage.
- 3.21 The NFI exercise will be repeated in 2018/19 and we will work on the compilation of data sets with departments. In addition the Cabinet Office have developed interrogation techniques to enable data to be refreshed on a more regular basis. We have worked with BSC to develop the implementation of a Re-check Exercise for mortality data with the intention of identifying cases where expenditure continues to be incurred in respect of deceased persons.
- 3.22 The Council employs a range of counter fraud techniques including the use of technology to detect and prevent fraud. Some key examples are set out below:
- Internal Audit use data analytic software to work with high volume data populations as a basis for identifying informed targets for subsequent testing. Such techniques are bringing improved levels of assurance and insights to management about the effectiveness of internal control systems.
  - The Business Services Centre use pre-payment software to detect duplicate payments ahead of authorising payment runs. Software is also under development to provide for continuous, automated auditing to ensure transactions in the Council's core systems remain within acceptable parameters.
  - ICT are continually using technology to detect and deflect virus, malware and other malicious attacks against the Council's network.
  - Internal Audit is progressing a data washing exercise with Nottinghamshire Police to intelligently target suppliers who could be involved in serious and organised crime.

### ***Cyber Security***

- 3.23 Cyber Security continues to make the national news and figures reported by CFaCT recognise an increased awareness of risk in this area. The cyber security agenda has

been considered by Internal Audit when developing the Fraud Risk Assessment and the Internal Audit work for 2018/19.

3.24 Risk areas under the cyber security agenda have been identified as:-

- \* Specialist, sophisticated attacking or hacking
- \* Data breach management
- \* Business continuity
- \* Management of general ICT controls.

3.25 In relation to the first risk area the Council's ICT Division employ a range of security measures to provide for digital and physical asset protection and, during the year, have successfully defended a variety of cyber related attacks. Internal Audit plan to consider the other risks under the cyber security agenda through a range of assurance assignments as part of the work it carries out in the coming year.

***Serious and organised crime***

3.26 Serious and Organised Crime has been identified as an emerging risk from the national perspective and is reflected in findings from CFaCT. Internal Audit have continued to monitor the delivery of recommendations within the serious and organised crime checklist completed in 2016/17. During 2017/18 Internal Audit undertook the full serious and organised crime audit recommended by the Home Office and the Ministry for Housing, Communities and Local Government. Draft findings and recommendations arising from this work were under review by management at the time of compiling this report.

3.27 A significant element of this work has been closer liaison with Nottinghamshire Police and especially forging links with its Serious and Organised Crime Unit. This has resulted in the sharing of information for a data-washing exercise to match Council records against known targets. We will develop this liaison further during 2018/19.

## **4. ACTION PLAN**

4.1 Table 6, below provides a summary of progress against the actions included in the 2016/17 Fraud Report, followed by new actions for 2018/19 as a result of this latest edition of the report.

Table 6 – Action Plan

| Action  | Timescale             | Responsibility  | Progress & revised timescales  |
|---|-----------------------|---|--|
| <b>Update on 2017/18 actions</b>  |                       |   |  |
| 1. One member of staff to complete the CIPFA Accredited Counter Fraud Specialist qualification.                       | March 2018            | Head of Internal Audit  | Achieved – one member of the internal audit team has successfully completed the qualification.   |
| 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                      | Significant progress made – a draft version of an e-learning package is being tested prior to release.<br><b>To be completed in June 2018</b>  |
| 3. Complete the refresh of the Anti-Money Laundering Policy and Procedures for consideration by the Policy Committee. | September 2017        | Head of Internal Audit  | Achieved – these have been refreshed.  |
| 4. Commence a refresh of the Counter Fraud & Counter Corruption Policy & Strategy and the Fraud Response Plan.        | September 2017        | Head of Internal Audit  | Achieved – documents have been refreshed.  |
| 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  | Partly Achieved – fraud alerts have been disseminated and updates within 'Team Talk' are planned to coincide with the release of the e-learning package.<br><b>Regular updates to be implemented in 2018/19. To include targeted insights for schools.</b> |
| 6. Complete the referral protocol with Nottinghamshire Police for local liaison arrangements                          | September 2017        | Head of Internal Audit and Service Director Customers & Human Resources | Achieved – liaison has been established with the Serious and Organised Crime Unit and effective use of this channel will continue to be developed throughout 2018/19.  |
| <b>New actions for 2018/19</b>  |                       |   |  |
| 7. Respond to any issues identified by the data-washing exercise with Nottinghamshire Police.                         | March 2019            | Head of Internal Audit  |  |

|  |                |  |  |
|--|----------------|--|--|
| 8. Pro-active work with the Group Manager – Procurement to assess vulnerability to procurement cartels.                    | November 2018  | Head of Internal Audit   |  |
| 9. Provide a more detailed assessment for the Governance & Ethics Committee on the Council's defences against cyber fraud. | September 2018 | Head of Internal Audit and relevant ICT Service Managers                 |  |
| 10.Pro-active work with the Travel & Transport Team to respond to the threat of Blue Badge and Concessionary Travel fraud. | January 2019   | Head of Internal Audit   |  |
| 11.Work with Legal Services to develop a proposed protocol for the pursuit of private and civil prosecutions.              | November 2018  | Head of Internal Audit with the assistance of the Head of Legal Services |  |
| 12.Review the success of the Re-Check pilot and its potential for expansion into other areas of service.                   | September 2018 | Head of Internal Audit   |  |