



**Nottinghamshire
County Council**

ANNUAL FRAUD REPORT 2015/16

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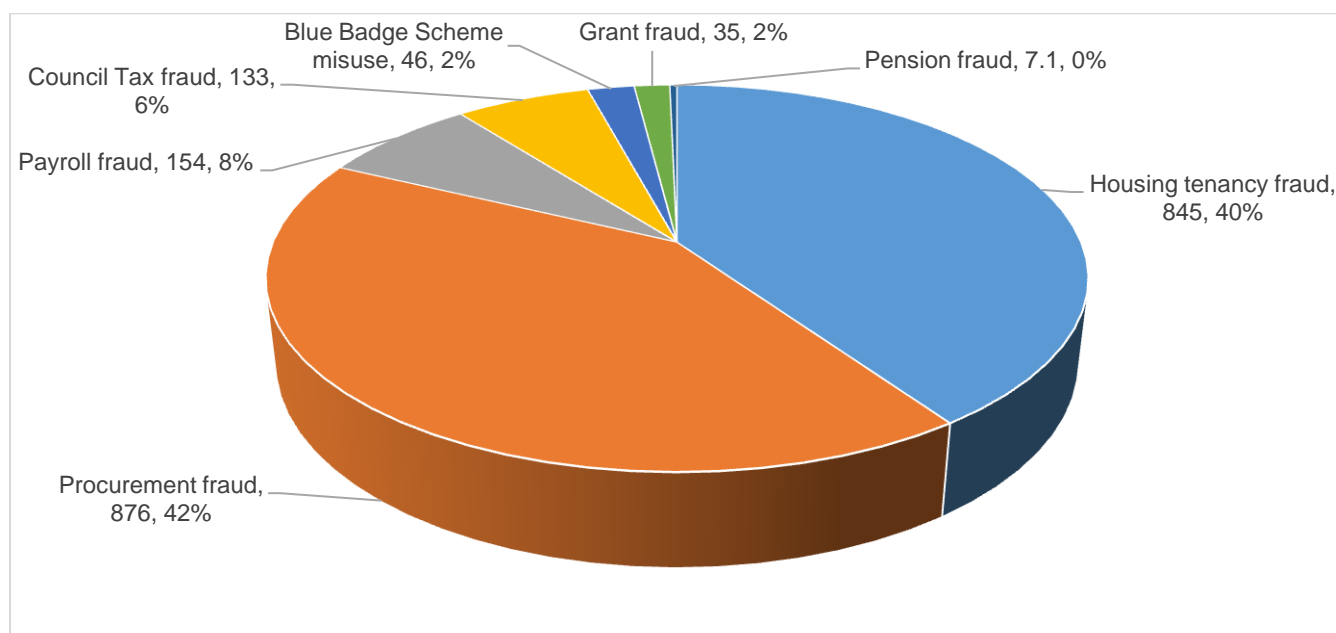
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1. UNDERSTANDING THE FRAUD THREAT

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 in 2013 by the National Fraud Authority, 'Fighting Fraud Locally' estimates fraud losses across all sectors in the UK to be £52 billion. Of this total, £19.9 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 the chart below.

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



Local threat level

1.2 A Fraud Risk Assessment (FRA) for has been developed to assess the nature of the fraud and corruption threats the Council currently faces. This is the first version of the FRA, and it has been compiled primarily by the Council's Internal Audit service, using the following sources of information:

- 'Fighting Fraud & Corruption Locally – The Companion 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
- The Internal Audit service's knowledge and review of the core systems of control in place within the Council.

1.3 For this first version of the FRA, the extent of consultation with senior managers in the Council has been limited. The FRA was presented to the Corporate Leadership Team

(CLT) in April 2016 and, in doing so, it was highlighted that the FRA needs to remain a live document through ongoing consultation on the following aspects of the local fraud threat:

- the extent of fraud threats in the authority and the inherent risk they pose
- the range of key controls and measures in place to mitigate the risks, to confirm the residual risk levels
- actions planned to mitigate risks further.

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) Pension fraud
- g) Invalid use of travel and parking permits

Planned actions in 2016/17 to strengthen the Council's controls against fraud are set out below in section 3.

1.5 During 2016/17, the FRA will be kept under continual review, as follows:

- Consultation with key service managers to confirm the nature of the fraud threat facing key services, the key controls in place to mitigate risks, and planned developments to strengthen resilience further
- Internal Audit to update the FRA during the year in the light of national fraud alerts it receives, the incidence of further fraud cases at the Council, and the outcome of its own reviews of controls in the key areas of the Council's activity which are vulnerable to attempted fraud
- The updated FRA to be discussed quarterly with the Statutory Officers' Group and reported quarterly by Internal Audit to CLT.

2. INCIDENCE OF FRAUD AT NCC

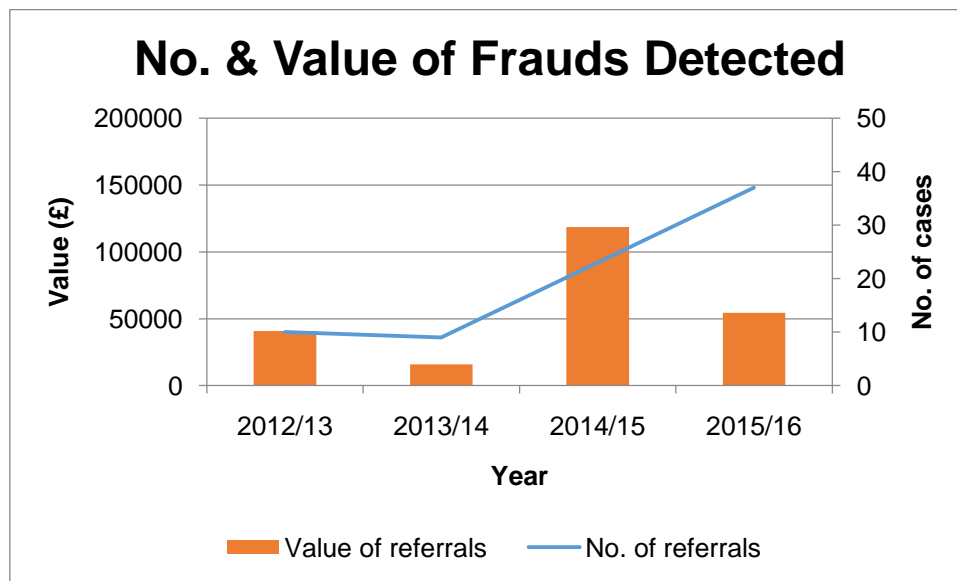
2.1 In compliance with the Transparency Code, NCC publishes summary information on its website each year concerning its arrangements for countering fraud. This includes the number of fraud cases investigated each year. The published details for the past two years are the following:

Table 2 – Published Transparency Code information

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

2.2 For some of the above cases, the investigations concluded that there was insufficient evidence to confirm that fraud had been perpetrated against the Council. In terms of confirmed cases, the following chart presents the detected levels of fraudulent activity in the Council in recent years.

Table 3 – Trend in the incidence of detected fraud at NCC



2.3 The increase in the number of detected cases of fraud over the past two years is attributable to a number of 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 In the 2015/16 financial year, the following fraud cases were detected:

Table 4 – Detected fraud cases in 2015/16

Nature of fraud	Detection source	Amount involved (£)	Response status
NCC – Internal			
Misappropriation of income	Whistle blower	6,000 (estimate)	Staff dismissals
Bogus travel claims	Line management	300	Employee left NCC prior to dismissal
Loss of petty cash balance	Line management	115	Lost amount written off. No potential suspects identified
Falsified timesheets	Line management	Unquantified	Employee dismissed
Schools – Internal			
Inappropriate payments to staff	Internal Audit	4,465	Employee was no longer in the school's employment. Further payments stopped
Bogus overtime claims	Head Teacher	Unquantified	Employee dismissed
Failure to work contracted hours and bogus overtime claims	Head Teacher	Unquantified	Employee dismissed
NCC – External			
Non-notification of deceased service user (residential care)	NFI	43,512	Full recovery of amount overclaimed
Late notification of deceased service user (direct payments)	NFI	286	Account closed and amount invoiced to estate of service user
Misuse of Blue Badges - disabled parking permits (10 cases in 2015/16)	Civil Parking Enforcement Officers	n/a	Warning letters sent out to 10 pass holders
Misuse of Direct Payments (16 cases in 2015/16)	Monitoring procedures	Unquantified	Direct Payments withdrawn from service users, social care needs now met through personal budget
Deprivation of assets (Adult Social Care)	Financial Assessment	Unquantified	Service user now paying full cost of care
Forged bank note	NCC's bank	20	Income written off

- 2.5 All incidences perpetrated by employees of NCC in 2015/16 have been dealt with through the disciplinary procedure.
- 2.6 2015/16 also saw the completion of successful prosecutions in two cases which arose in previous years:
- a) A school office manager was jailed for 12 months at Nottingham Crown Court having pleaded guilty to fraud by false accounting and six counts of fraud by false representation, involving the misappropriation of £30,000 of school funds over a five year period.
 - b) A member of the public was handed a 26-week suspended prison sentence, plus a victim surcharge of £80, for continuing to cash her mother's pension cheques after the date of her mother's death in 1986. The fraud amounted to almost £70,000. This case also identified flaws in the reliability of National Fraud Initiative data-matching using death records prior to 1990.

National Fraud Initiative (NFI)

- 2.7 Included within the above are the cases detected through the Council's participation in the NFI. The Cabinet Office carries out a data matching exercise throughout the country, on a two yearly basis, to help public sector organisations detect fraudulent and erroneous payments. The main purpose of the exercise is to match data from a range of organisations to help reduce the level of fraud in key areas, including housing benefit, pensions, tenancy fraud and supplier management.
- 2.8 The most recent exercise, NFI 2014/15, required the County Council to submit payroll data relating to both employees and pensioners. This data was matched against other authorities' payroll and housing benefit data, against the Department of Work and Pensions (DWP) deceased persons data, and against Home Office immigration records.
- 2.9 Data was required on the payments to creditors for the period April 2009 to September 2012, which was analysed for duplicate payments, duplicate supplier records and incorrect payments of VAT. An exercise was carried out on potential matches of staff details and supplier details to examine the possibility of any conflicts of interest for employees of the Authority.
- 2.10 Data in respect of Blue Badge parking permits, residents parking permits, concessionary fares and payments to private residential care homes was compared with DWP deceased persons data, and details of insurance claims were analysed to identify potential duplicate or serial claimants.

3. NCC'S ASSESSED RESILIENCE TO FRAUD

- 3.1 The Transparency Code information presented above in Table 2 identifies that 21 staff were involved in the investigation of fraud in 2015/16. This comprised staff working in the following areas of service:
- Internal Audit
 - ACFS Finance
 - Human Resources
 - Blue Badge (parking)
- 3.2 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 latter raises some concern that there may be scope to improve the quality of fraud investigations carried out within the Council. The Internal Audit service has plans to address this issue and it has taken some steps towards it in recent years:
- CIPFA Accredited Counter Fraud Specialist (CACFS) CIPFA certificate – a former member of staff commenced this in-depth professional qualification, but left the employment of the authority before completing it.
 - CIPFA Accredited Counter Fraud Technician (CACFT) – three members of the Internal Audit Section completed this introductory level qualification in 2015/16.
 - Promotion of the CACFS certificate in the current round of Employee Performance & Development Reviews
- 3.3 The approved audit plan for 2016/17 incorporates a number of assignments that will contribute to the update of the FRA. In addition to these audits, the Internal Audit Plan also 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 Audit Service plans to introduce a periodic publication to serve the twin aims of raising awareness of fraud issues and spreading good practice in internal control.
- 3.4 In addition to Internal Audit's contribution, other developments within the Council over the next 12 months include the following:
- Fraud Response Plan - review by HR colleagues of the Council's protocol for referring suspected fraud cases to the Police, to ensure the arrangements and requirements are clearly set out and understood across the Council. This will include ongoing dialogue with the Police on the suspected fraud cases the Council detects.
 - Pension fraud - assessment by colleagues in the Business Services Centre of mortality screening services.