

## **Audit Committee – 1 September 2015**

### **Counter Fraud Update**

#### **Summary of report:**

This report is to update the Audit Committee on the Council's counter fraud arrangements, including presenting for endorsement the refreshed counter fraud policy (**Appendix 1**) and anti money laundering policy (**Appendix 2**). This report also includes for information the first Protecting the English Public Purse (PEPP) 2015 report (**Appendix 3**), produced by the European Institute for Combating Corruption and Fraud (TEICCAF).

#### **Background papers:**

Counter fraud policy, anti money laundering policy, PEPP 2015.

#### **Recommendation:**

1. Note the contents of this report and endorse the refreshed counter fraud policy and money laundering policy.

#### **Background:**

The refreshed counter fraud policy replaces the previous anti fraud and anti corruption policy and strategy which was last endorsed by Audit Committee on 26 September 2011. The anti money laundering policy was last refreshed in March 2009.

PEPP 2015 is the first report produced by TEICCAF. It replaces the national series of annual protecting the public purse publications produced by the Audit Commission. It has been developed by the former counter fraud team of the Audit Commission, who now form part of TEICCAF.

#### **Resource and legal considerations:**

It is important that effective systems of internal control are in place for the prevention of fraud and corruption. Where fraud or corruption is detected, robust action is always taken against the perpetrators.

#### **Governance Issues / Citizen Impact:**

The Council takes seriously its responsibilities in ensuring effective control arrangements are in place and in dealing with reported allegations of fraud and corruption. This offers protection to the council and its officers and provides an assurance to stakeholders and citizens regarding the security of the council's operations.

## **Performance and risk management issues:**

Many audit committee activities are an important and integral part of the council's performance management and corporate governance frameworks. The internal audit strategic plan is risk assessed to ensure that areas most at risk are examined as a priority and includes an allocation of time to undertake unplanned irregularity and consultancy work.

Irregularities may be noted during regularity audit reviews or be reported from a number of sources, including council managers, employees, occasionally via the confidential reporting policy (whistle blowing), and externally. Irrespective of how the allegations are reported, however, each will be subject to investigation. Some result in little investigatory time having to be spent, others can take longer. Relevant action, where found to be appropriate, will always be taken, i.e. disciplinary, court proceedings, police referral and recovery of losses.

## **Equality Implications:**

None arising from this report.

## **Consultation:**

The counter fraud policy and anti money laundering policy have been consulted upon with executive directors and their management teams and the unions.



**James Walsh – Chief Finance Officer**

19 August 2015

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**Counter Fraud Arrangements:**

Audit Committee were informed on 20 April 2015 of the counter fraud work streams planned for 2015/16. An update on progress against these work streams and RAG rating is given in the table below.

Counter Fraud Work Stream	Progress Update – September 2015
<p><b><u>Policy &amp; Procedures</u></b>            Review of the anti fraud &amp; anti corruption policy and strategy, including the council’s fraud response plan and the anti money laundering policy. The counter fraud toolkit will also be subject to refresh.</p>	<p>The counter fraud policy and anti money laundering policy have now been refreshed and will be communicated to staff. The counter fraud toolkit has also been refreshed.</p> <p style="text-align: right;"><b>RAG: GREEN</b></p>
<p><b><u>Training &amp; Awareness</u></b>            A planned targeted programme of fraud awareness training will be delivered to managers.</p> <p>The corporate counter fraud and corruption newsletter ‘Fraud Spotlight’ will continue to be issued to raise awareness and act as a deterrent to potential perpetrators of fraud.</p>	<p>A counter fraud, bribery &amp; corruption e-learning module (for employees and managers) has been developed and will be rolled out on the Council’s corporate e-learning and development website. This will include schools.</p> <p>The latest Fraud Spotlight, Executive Director Edition was issued in July 2015.</p> <p style="text-align: right;"><b>RAG: GREEN</b></p>
<p><b><u>Fraud Risk Management</u></b>            The internal audit fraud risk register will be continually updated in light of new, emerging or changing risks and action taken as appropriate.</p>	<p>The fraud risk register was updated in August 2015.</p> <p style="text-align: right;"><b>RAG: GREEN</b></p>
<p><b><u>National Fraud Initiative (NFI)</u></b>            The council will continue participation where appropriate in the NFI data matching fraud initiative.</p>	<p>NFI matches have been received and are being cleared. The target date is October 2015.</p> <p style="text-align: right;"><b>RAG: AMBER</b></p>

Success of the above is measured by a lower incidence of both ‘depth and breadth’ of fraud and corruption. The counter fraud and irregularity dashboard is detailed at **Appendix 4**. Audit Committee will continue to receive routine 6 monthly summaries of investigative and counter fraud work undertaken as well as monitor performance in this area.

## Protecting the English Public Purse (PEPP) 2015

PEPP 2015 as detailed at Appendix 3, made a series of recommendations to council's. Recommendations together with the Council's arrangements are detailed in the table below:

Protecting the English Public Purse Recommendation	Walsall Council's Arrangements
Use our checklist for councillors, senior officers and others responsible for audit and governance to review their counter-fraud arrangements.	The checklist has been completed and is detailed at <b>Appendix 5</b> .
Use our free, tailored benchmark comparative analysis (available from autumn 2015) to challenge poor performance.	The tailored benchmark comparative analysis will be used to challenge poor performance when it becomes available in Autumn 2015.
Assess their own strategy in the context of the national Fighting Fraud Locally 2015 strategy.	This will be done when the Fighting Fraud Locally 2015 strategy is issued later in the year.
Give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud.	Consideration is given to social harm caused by fraud in determining the overall strategy to tackle corporate fraud.
Accelerate re-focusing of counter fraud activities towards non-benefit (corporate) frauds.	A dedicated counter fraud team exists within internal audit. There has always been an allocation of time within the internal audit plan for corporate counter fraud activity, hence no re-alignment is necessary.
Record and report fraud as fraud.	This is in place.
Celebrate and promote their performance in detecting fraud and corruption.	This is in place via Audit Committee reporting arrangements.
Assess their exposure to RTB and No Recourse to Public Funds fraud (NRPF) fraud risks.	<p>'Right to buy' (RTB) is no longer applicable at Walsall Council to the extent that the Council no longer holds social housing stock.</p> <p>NRPF - an assessment will be carried out to assess Walsall's exposure to this risk.</p>



## **1 Introduction**

- 1.1 Walsall Council has a zero tolerance to attempted or actual fraud against it.
- 1.2 What is meant by fraud and corruption? The serious fraud office define Fraud 'abuse of position, or false representation, or prejudicing someone's rights for personal gain'.
- 1.3 Put simply, fraud is an act of deception intended for personal gain or to cause a loss to another party. Fraud arises from acts and circumstances of imposition. It usually takes either the form of a statement of what is false or a suppression of what is true. The withholding of information is not in general fraudulent unless there is a special duty to disclose it.
- 1.4 Corruption occurs where the integrity of a person, government, or company is manipulated and compromised for their own personal gain. Corruption means dishonest or fraudulent conduct by those in power, typically involving bribery. Any improper and unauthorised gift, payment or other inducement that is given in connection with the recipient's office or duties will be likely to be caught under the Bribery Act 2010
- 1.5 Walsall Council acknowledges its responsibility for the proper administration of public funds and through this policy, wishes to emphasise to the public and its employees, the importance it places on probity, financial control and honest administration. The Council employs counter fraud staff as part of Internal Audit who are tasked with investigating alleged fraud and corruption as part of their role. Counter fraud arrangements will be kept under constant review and suspected fraud and corruption will be vigorously pursued and all appropriate action taken.
- 1.6 The council's financial rules details the Council's stance on fraud and corruption and the Code of Conduct for Council Employees sets out the standards of behaviour expected of employees.

## **2 Purpose**

- 2.1 The purpose of this policy is to make clear to members, employees, stakeholders and the general public, the council's approach to counter fraud in the administration of its affairs.

## **3. Policy Statement**

- 3.1 In administering its responsibilities, the Council is committed to an effective counter fraud policy designed to:

- encourage prevention;
- promote detection;
- identify a clear pathway for investigation.

3.2 There are internal and external threats from fraud and corruption. The Council's expectation is that members and employees at all levels will lead by example to ensure high standards of propriety and accountability are established and adhered to and that personal conduct is beyond reproach at all times.

3.3 All individuals and organisations who come into contact with the Council, particularly those who are provided with financial support, are expected to act towards the Council at all times with integrity and without fraudulent or corrupt intent.

3.4 This policy is based on the following procedures designed to frustrate any attempted fraudulent or corrupt act and covers the following:

- Culture (Section 4)
- Prevention (Section 5)
- Detection and Investigation (Section 6)
- Training (Section 7)

3.5 The council is also aware of the high degree of external scrutiny of its affairs by a variety of bodies including:

- Local tax payers
- Service users
- Business community
- External Audit
- Government departments and inspectorates
- Local Government Ombudsman
- H M Revenue and Customs

3.6 A counter fraud response plan is attached at **Appendix 1** to ensure that senior managers adopt a consistent approach in their actions on being notified or becoming aware of a suspected fraud.

## 4 CULTURE

4.1 The Audit Committee's remit is to review the Council's corporate governance, risk management and control arrangements. In doing so, they have specific responsibilities in relation to counter fraud:

- to review the assessment of fraud risks and potential harm to the Council from fraud and corruption; and
- to monitor the counter fraud strategy, actions and resources.

4.2 This policy describes the Council's approach to probity, financial control and honest administration; and the commitment to the fight against fraud, whether perpetrated by elected members, employees, contractors or the public. Reference to this stance is included within financial and contract rules and is also reflected within the code of

conduct for employees. Elected member conduct is governed by the Members' Code of Conduct. The Council is emphasising that it will deal with such matters seriously and take all necessary action, both to prevent such occurrences and to detect and deal with identified cases.

- 4.3 The Council expects that employees support this approach by reporting matters of genuine concern to their line manager where applicable or through the Council's Confidential Reporting (Whistleblowing) procedure. It is acknowledged that employees may find some difficulty in reporting potential fraud or corruption. The Council can assure employees raising such concerns that they will be fully supported; they will have nothing to fear from reprisals; and that there will be no adverse impact on their personal situation. Where anonymity is requested every effort will be made to guarantee such confidentiality.
- 4.4 The reporting of concerns by members of the public is also encouraged by publishing appropriate telephone numbers and online reporting information and by ensuring that the Council, particularly Internal Audit, is seen to be both accessible and responsive. This requires a positive reaction to all expressions of concern including those which are anonymous. As with employees, requests for confidentiality by members of the public will be honoured where possible but cannot be guaranteed.
- 4.5 Senior managers are responsible for ensuring that any allegation or instance of fraud or corruption notified to them, is immediately reported to Internal Audit who will then arrange, through clearly defined procedures to:
- deal promptly with the matter;
  - record all evidence received;
  - ensure evidence is both sound and adequately supported;
  - ensure the security of all evidence collected;
  - notify as appropriate, the chief executive, the relevant executive director(s) and the assistant director or other senior manager(s) as appropriate;
  - liaise with the Police, if necessary; and
  - assist in progressing disciplinary procedures as appropriate.
- 4.6 The Council will deal as quickly and thoroughly as possible, with anyone who attempts a fraudulent or corrupt act against the Council and will be robust in dealing with any malpractice, financial or otherwise.

## **5 PREVENTION**

### **Employees**

- 5.1 The Council recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential staff in terms of their propriety and integrity. Employee recruitment must, therefore, be in accordance with the Council's recruitment procedures. In particular, written references should be obtained regarding the known honesty and integrity of potential employees before employment offers are made, together with evidence of their right of entitlement to work in the UK.

- 5.2 Where necessary and appropriate Disclosure and Barring Service checks should be completed before any formal job offer is made.
- 5.3 Council employees are expected to follow the code of conduct for employees and any code related to their personal professional qualifications.
- 5.4 All employees will be bound by the requirements of the code of conduct for employees and will be required to declare within their service area 'register of interests', any interest in contracts and any other matters or association with any council activity which could cause potential conflict. There is also a requirement to disclose gifts and hospitality where relevant.

### **Members**

- 5.5 Members are required to adhere to the local code of conduct as approved by Council. As part of the compliance with the local code of conduct and the law, members are required to declare all disclosable pecuniary interests to the Monitoring Officer within 28 days of their election, or within 28 days of any change occurring, or within 28 days of a member becoming aware of any change to their disclosable pecuniary interests. A disclosable pecuniary interest is as prescribed by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012. The Monitoring Officer is required by law to maintain a register of all disclosable pecuniary interests which is open for inspection by the public. Failure to disclose a pecuniary interest can constitute a criminal offence. Members are also required to notify the Monitoring Officer of any gifts or hospitality with an estimated value of at least £50 which they receive in their role as a member of the council.

### **Gifts and Hospitality**

- 5.6 All members and employees will ensure they act within the law and be mindful of the Bribery Act 2010. The Bribery Act defines bribery as "giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so". There are 4 key offences under the Act:

- bribery of another person;
- accepting a bribe;
- bribing a foreign public official; and
- a corporate offence of failing to prevent Bribery.

The Council's gifts and hospitality procedure sets out the Council's approach.

### **Systems**

- 5.7 The council regularly reviews its financial and contract rules and codes of conduct. These documents place a duty on members and employees to act in accordance with established best practice when dealing with the affairs of the council.
- 5.8 It is the responsibility of managers to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and corruption. The Council ensures effort is made to continually review and



develop these systems in line with best practice to ensure efficient and effective internal controls. The adequacy and appropriateness of the council's financial and other systems is independently monitored by both internal and external audit.

## **6 DETECTION AND INVESTIGATION**

6.1 The array of preventative systems, particularly internal control systems, within the council has been designed to provide indicators of any fraudulent activity and therefore also to act as a deterrent.

6.2 Internal Audit also undertake specific tests or initiatives to detect fraud. Examples include:

- data matching both internally and via the National Fraud Initiative, to match data across different financial and other systems to detect fraud;
- seeking information from the National Anti Fraud Network (NAFN).

6.3 It is often the alertness of staff and the public to indicators of fraud that enables detection to occur and the appropriate action to take place when there is evidence that fraud or corruption may be in progress.

6.4 As indicated in section 4, employees are expected to support this policy by reporting matters of genuine concern to their managers or supervisors. If employees prefer to raise concerns other than with line management, alternative routes are available, including:

- Internal Audit (Tel: 01922 654760 [internalauditservice@walsall.gov.uk](mailto:internalauditservice@walsall.gov.uk) )
- the Chief Executive (Tel: 01922 652000 [paul.sheehan@walsall.gov.uk](mailto:paul.sheehan@walsall.gov.uk) )
- the External Auditor (Tel: 0118 928 1507 [hrohimun@uk.ey.com](mailto:hrohimun@uk.ey.com) )
- the Police (Tel: 0845 113 5000)
- on line reporting: to enable concerns to be reported in a secure and confidential manner. See Link:  
[https://www2.walsall.gov.uk/eforms/ufsmain?formid=FRAUD\\_NOTIFICATION&e&sessionid=1](https://www2.walsall.gov.uk/eforms/ufsmain?formid=FRAUD_NOTIFICATION&e&sessionid=1)

6.5 Abuse of the process by raising malicious, unfounded allegations will be treated as a serious disciplinary matter. Employees however, should not be deterred from raising genuine concerns and in so doing they will be supported in every possible way.

6.6 Despite the best efforts of management and auditors, inevitably a number of frauds are discovered by chance or "tip off" and the council has arrangements in place to enable appropriate action to be taken in such instances.

6.7 Dependent upon the nature and anticipated extent of the allegations, Internal Audit will normally work with management and other agencies such as the Police to ensure that all allegations are properly investigated and reported upon. Where allegations are proven and the council has suffered loss the council will always seek to recover those losses in full.

- 6.8 Assistant directors and senior managers will be expected to implement the Council's disciplinary procedures where the outcome of the audit or other investigation indicates improper conduct on the part of employees.
- 6.9 The Council will expect the Police to independently take action to prosecute offenders where financial impropriety is discovered. Referral to the Police will not prohibit action under the disciplinary procedures.

## **7 TRAINING**

- 7.1 The Council recognises that the continuing success of its counter fraud policy and its general credibility will depend largely on the effectiveness of training and the responsiveness of employees throughout the organisation.
- 7.2 To facilitate this the Council supports the concept of induction and on going training and development, particularly for employees involved in internal control systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced.
- 7.3 There is the possibility of disciplinary action being taken against staff who refuse unreasonably to undertake relevant job related training or any relevant instructional guidance.
- 7.4 Investigation of fraud and corruption is undertaken by Internal Audit. It is therefore apparent that staff involved in this work should also be properly and regularly trained in all aspects of it. The training plans of audit staff reflect this requirement.

## **8 CONCLUSION**

- 8.1 The Council has in place a clear network of systems, procedures and controls to assist in the fight against fraud and corruption. It is determined that these arrangements will keep pace with future developments in both preventative and detection techniques.
- 8.2 A continuous overview of such arrangements takes place through, in particular:
- the Audit Committee, whose remit includes considering the effectiveness of the council's control environment and associated counter fraud arrangements;
  - the Assistant Director – finance who has overall responsibility for the council's financial affairs under Section 151 of the Local Government Act 1972, and Section 114 of the Local Government Finance Act 1988;
  - Internal Audit discharging its responsibilities detailed within financial and contract rules and the Accounts and Audit Regulations 2015.
  - the Council's External Auditor.

**Updated: August 2015**

## **1 INTRODUCTION**

The Council is committed to the values of probity and accountability, but a determined perpetrator will often attempt to find a way around systems and controls. It is therefore, necessary for all managers to be aware of what is required in the event of being notified of or discovering a suspected fraud. This document sets out the process, identifies the procedure for employees who wish to notify any suspicions and indicates how employees should respond.

## **2 NOTIFICATION OF A SUSPECTED FRAUD**

2.1 Suspected fraud can be discovered in a number of ways but in all cases it is important that employees feel able to report their concerns and are also aware of the means by which they are able to do so. The Council has several means available to employees:

### **2.1.1 Line Management**

If an employee discovers or becomes aware of suspected fraud or corruption then this should immediately be reported to Internal Audit. Should the employee report the suspected fraud or corruption to their manager, they in turn should immediately pass on the information obtained from the employee to Internal Audit who will consult with senior management as appropriate.

In some cases the notifying employee may prefer to report the suspicion to one of those persons shown at paragraph 6.4 of the main policy.

### **2.1.2 Internal Audit**

Although the primary role of Internal Audit is to provide an opinion as to the extent of assurance that can be placed on the adequacy of systems, procedures and controls within the council (the internal control environment), they are also charged with the responsibility for investigating cases of suspected fraud and corruption. Internal Audit has many years experience in fraud investigation and will always be receptive to discussing concerns raised by employees or the general public. In each case where anonymity is requested however, this will be scrupulously observed as far as they are able.

### **2.1.3 Other Avenues**

If other methods of notification within the Council are preferred, where this involves suspected fraud or corruption, Internal Audit must be immediately notified.

## **2.2 Notification Procedure**

2.2.1 For reporting purposes, the normal sequence of events where fraud and/or corruption is suspected, is as follows:

- the employee to inform Internal Audit, line manager or other individuals as detailed in 6.4 of the main policy, immediately they become aware of or suspects that fraud and/or corruption has occurred or is likely to occur;
- if Internal Audit is not immediately notified, the individual who has been notified must immediately inform Internal Audit of the reported information. Where appropriate, Internal Audit will notify appropriate senior management of initial findings;
- where there is evidence to suggest that a criminal offence may have been committed, Internal Audit, following consultation with the Chief Executive, in appropriate cases, will inform the Police; and
- the matter may then proceed if appropriate in accordance with the disciplinary procedure.

## **3 INTERNAL AUDIT INVESTIGATION OF A SUSPECTED FRAUD**

### **3.1 Initial Stages**

3.1.1 Once fraud or corruption is suspected it is critical that any investigation is conducted in a professional manner aimed at ensuring that the current and future interests of both the Council and the individual(s) are protected. The latter is equally important as a suspicion should not be seen as guilt to be proved.

3.1.2 It is also crucial that the notifying employee does not feel threatened. The Council undertakes to protect the identity of such employees and not to release the source of notification at any time during the investigation.

3.1.3 For each notified suspicion where the disciplinary procedure commences, an 'Investigating Officer' will be appointed to be in charge of the investigation on a day to day basis. The Investigating Officer will be assisted by a senior audit officer.

### **3.2 Rights Accorded to Internal Audit**

To facilitate the investigation of fraud and corruption (as well as normal audit work), Internal Audit are able to:

- access council premises at reasonable times;
- have access to all assets, records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under examination;
- require any employee of the Council to account for cash, stores or any other council asset under his/her control;
- access records belonging to third parties such as contractors when required; and
- directly access the Chief Executive, Audit and Standards Committees.

### **3.3 Subsequent Steps**

3.3.1 Internal Audit in conjunction with the Investigating Officer must:

- discuss, at an early stage, the initial findings with the appropriate senior management, and in consultation with the Head of HR assess whether there is a need for any employee to be suspended. The decision should be kept under review at all stages of the ensuing investigation;
- identify a course of action (what, who, when, how, and where); and
- identify the reporting process (who by, to whom, when and how).

3.3.2 Internal Audit and the Investigating Officer will each open a file to record chronologically as appropriate:

- telephone conversations;
- face to face discussions;
- records/documents reviewed; and
- tests undertaken and results.

The file should be indexed, all details recorded, no matter how insignificant they initially may appear and ensure the correct form of evidence is obtained and appropriately retained. It should be ensured that any interviews conducted are done so in the correct manner in particular with due regard to the requirements of the Police and Criminal Evidence Act and the disciplinary procedure.

3.3.3 Internal Audit will always be available to offer advice and guidance.

## **4 LIAISON WITH EXTERNAL AUDIT AND THE POLICE**

### **4.1 External Audit**

Where the likely loss arising from fraud and / or corruption is estimated to exceed £10,000, Internal Audit will arrange to notify the External Auditor at an appropriate time.

### **4.2 Police**

4.2.1 The experts at investigating fraud and corruption matters are the Police who will also advise on the likely outcome of any intended prosecution. Following consultation with the Chief Executive as appropriate, Internal Audit is under a duty to report suspected offences to the Police.

4.2.2 The Police welcome early notification of suspected criminal offences and, where appropriate, informal discussion may take place before formal referral, to establish the precise nature of offences and the evidential requirements.

4.2.3 If the Police decide that a formal investigation is necessary, all employees must cooperate fully with any subsequent inquiries or recommendations. All contact with the Police following their initial involvement will normally be via Internal Audit or the Investigating Officer.

- 4.2.4 Where the Police decide to formally investigate, this will not normally prejudice any internal disciplinary procedures which should wherever possible continue as normal. The internal investigation however, and that of the Police should be co-ordinated to make maximum use of resources and information. At times it may be appropriate to await the outcome of the Police inquiry before concluding any disciplinary action. Care should be taken to ensure that the internal inquiries do not undermine the Police inquiries.
- 4.2.5 Internal Audit will take responsibility for preparing any required statements and assembling all evidence and exhibits. Occasionally, witness statements may be required from other parties and Internal Audit will co-ordinate this with the Police.
- 4.2.6 Internal Audit, in conjunction with the appropriate assistant director or senior manager, will ensure a compensation order is incorporated into any criminal prosecution and will also ensure other avenues of recovery such as fidelity guarantee or civil claims are robustly pursued.

## **5 INTERNAL REPORT**

- 5.1 At appropriate intervals, as soon as the initial detection stage has been completed and prior to the final report, Internal Audit and/or the investigating officer may prepare an interim, confidential report on the progress of the investigation. The report will be to the appropriate senior manager. The Head of HR will also be kept up to date in respect of disciplinary issues and, depending upon the nature and extent of the fraud, the Chief Executive will be kept informed. The interim reporting process will identify the:
- findings to date;
  - interim conclusions drawn from those findings;
  - action taken to date;
  - further actions deemed to be necessary.

## **6 FINAL REPORT**

This report will supersede all other reports and will be the definitive document in which all action taken will be recorded. It will be used by management for disciplinary action purposes unless disciplinary action has been taken on the basis of an interim report. It will also be used to identify any system weaknesses which facilitated the fraud and make recommendation(s) for improvement. The format of the report will not always be the same but will always include the following basic information:

- how the investigation arose;
- the personnel involved;
- their position and responsibilities in the council;
- the facts and evidence identified;
- the financial implications including losses and recoveries;
- a summary of the findings and agreed actions, both regarding the fraud and / or corruption itself and additional work to address the system weaknesses identified during the investigation.

## **7 PORTFOLIO HOLDER / AUDIT COMMITTEE INVOLVEMENT**

- 7.1 Using the reports identified in the preceding section, a summary report may be submitted to the appropriate portfolio holder identifying salient features of the investigation, the findings, action taken and lessons learned.
- 7.2 The Internal Audit 6 monthly monitoring report to the Audit Committee will provide a summary of all suspected irregularities investigated.

**Updated: August 2015**

**Walsall Council**

**Anti Money Laundering Policy  
August 2015**

**1. Introduction**

- 1.1 Historically, legislation to tackle the laundering of the proceeds of crime was aimed at the financial and investment sector. It has, however, subsequently been recognised that those involved in criminal conduct were able to ‘clean’ criminal proceeds through a wider range of businesses and professional activities.
- 1.2 The Proceeds of Crime Act 2002 (as amended by the Serious Organised Crime & Police Act 2005), the Money Laundering Regulations 2007 and the Terrorism Act 2000 (as amended by the Anti Terrorism, Crime & Security Act 2001 and Terrorism Act 2006) broaden the definition of money laundering and increase the range of activities captured by the statutory controls. They also imposed new obligations in respect of money laundering. These impact on certain areas of local authority business and require the Council to establish internal procedures to prevent the use of our services for money laundering.

**2. Scope of the Policy**

- 2.1 This policy applies to all Council employees and aims to maintain existing high standards of conduct within the Council by preventing criminal activity through money laundering. This Policy sets out the procedures that must be followed to enable the Council to comply with its legal obligations.
- 2.2 This Policy is part of the Council’s counter fraud arrangements.
- 2.3 Failure by an employee to comply with the procedures set out in this Policy may lead to disciplinary action and/or prosecution.

**3. What is Money Laundering?**

- 3.1 Money laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities. If they are successful, it allows them to maintain control over their proceeds and, to provide a legitimate cover for their source of funds. The following acts constitute money laundering under the Proceeds of Crime Act 2002:
- Concealing, disguising, converting, transferring criminal property or removing it from the UK (Section 327).



- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (Section 328).
- Acquiring, using or possessing criminal property (Section 329).

Under the legislation it is a criminal offence to:

- assist a money launderer;
- tipoff a person suspected to be involved in money-laundering that they are suspected of the subject of police investigations;
- failed to report a suspicion of money-laundering; and
- acquire, use or possess criminal property.

#### **4. What are the obligations on the Council?**

4.1 Under the regulations, the Council is required to establish appropriate risk sensitive policies and procedures in order to prevent activities related to money laundering and terrorist financing.

4.2 Not all of the Council's business is "relevant" for the purposes of the legislation regarding client identification. Relevant services as defined by the legislation include investments; accountancy and audit services; and certain financial, company and property transactions. However, the safest way to ensure compliance with the law is to apply it to all areas of work undertaken by the Council. Organisations conducting "relevant business" must:

- Appoint a Money Laundering Reporting Officer ("MLRO") to receive disclosures from employees of money laundering activity (their own or anyone else's);
- Take measures to make relevant employees aware of the law relating to money laundering and to train these employees in how to recognise and deal with transactions which may be related to money laundering and the financing of terrorism;
- Implement a procedure to enable the reporting of suspicions of money laundering;
- Maintain client identification procedures in certain circumstances; and
- Maintain customer due diligence records.

4.3 While the risk to the Council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities: serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the MLRO.

4.4 The following sections of this Policy provide further detail about the requirements listed in paragraph 4.1.

## **5. The Money Laundering Reporting Officer (MLRO)**

- 5.1 The officer nominated to receive disclosures about money laundering activity within the Council is James Walsh (Chief Finance Officer) who can be contacted on 01922 652322.
- 5.2 In the absence of the MLRO, Tony Cox (Head of Legal & Democratic Services and Monitoring Officer) is the appointed deputy who can be contacted on 01922 654824.

## **6. Reporting to the Money Laundering Reporting Officer**

- 6.1 Where an employee knows or suspects that money laundering activity is taking/has taken place, or has become concerned that their involvement in a matter may amount to a prohibited act under sections 327-329 of the Proceeds of Crime Act, this must be disclosed as soon as practicable to the MLRO. The disclosure should be within “hours” of the information coming to the employee’s attention, not weeks or months later.

**\*EMPLOYEES FAILING TO COMPLY WITH THIS REQUIREMENT MAY BE LIABLE TO PROSECUTION\***

## **7. Procedures**

- 7.1 The Council will not accept cash payments in excess of **£8,000\*** in order to comply with the Money Laundering Regulations.
- 7.2 Also, the Council will not accept a series of payments in cash that total £8,000 in respect of a single transaction (for example a sundry debtor bill). In practise this means that when a cash payment is received that the bill being paid should be examined to check whether the payment is a part payment of a bill of **£8,000\*** or more.

### Reporting

- 7.3 Any employee who suspects money laundering activity must report their suspicion promptly to the MLRO, or to the MLRO’s deputy if appropriate, using the attached form (Appendix B). If preferred, employees can discuss their suspicions with the MLRO or their deputy first.
- 7.4 The employee must follow any subsequent directions of the MLRO or deputy, and must not themselves make any further enquiries into the matter. They must not take any further steps in any related transaction without authorisation from the MLRO.
- 7.5 The employee must not disclose or otherwise indicate their suspicions to the person suspected of the money laundering. They must not disclose the matter

with others or note on the file that a report has been made to the MLRO in case this results in the suspect becoming aware of the situation (see section 8).

- 7.6 The MLRO or deputy must promptly evaluate any disclosure report, to determine whether it should be reported to the National Crime Agency (NCA)
- 7.7 The MLRO or deputy must, if they so determine, promptly report the matter to the NCA in the prescribed manner by submitting a Suspicious Activity Report (SAR) via the SAR online system at: [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk)
- 7.8 The employee will be informed if the MLRO makes a SAR report to the NCA. Employees should not complete any transactions **until clearance has been given by the NCA, or seven days have elapsed since the disclosure was made to the NCA.**
- 7.9 The MLRO or deputy will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the NCA.

### Customer Due Diligence

- 7.10 Where the Council is carrying out certain 'regulated activities' then extra care need to be taken to check the identity of the customer or client; this is known as carrying out customer due diligence.
- 7.11 Regulated activity is defined as the provision 'by way of business' of: advice about tax affairs; accounting services; treasury management, investment or other financial services; audit services; legal services; estate agency; services involving the formation, operation or arrangement of a company or trust or; dealing in goods wherever a transaction involves a cash payment of €15,000 or more (the limit specified by the Money Laundering Regulations 2007).
- 7.12 The regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help decide if it is necessary:
  - Is the service a regulated activity?
  - Is the Council charging for the service i.e. is it 'by way of business'?
  - Is the service being provided to a customer other than a UK public authority?

If the answer to any of these questions is **NO** then it is not necessary to carry out customer due diligence.

If the answer to all these questions is **YES** then it is necessary to carry out customer due diligence **BEFORE** any business is undertaken for that client.

The MLRO should be contacted if employees are unsure whether a customer due diligence is required.

7.13 Where employees need to carry out customer due diligence then evidence of identity must be obtained, for example:

- Checking with the customer's website to confirm their business address.
- Conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors.
- Seeking evidence from the key contact of their personal identity, for example their passport and position within the organisation.

7.14 The requirement for customer due diligence applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the employee's knowledge of the customer and a regular scrutiny of the transactions involved.

7.15 If, at any time, an employee suspects that a client or customer with whom they are, or will be, carrying out a regulated activity with is carrying out money laundering or terrorist financing, or has lied about their identity then this must be reported to the MLRO.

7.16 In certain circumstances enhanced customer due diligence must be carried out, for example where:

- The customer has not been physically present for identification.
- The customer is a politically exposed person. Typically, a politically exposed person is an overseas member of parliament, a head of state or government or a government minister who has held that position within the last 12 months. It is also a family member or a close business associate of such a person. Note that a UK politician isn't a politically exposed person.
- There is a beneficial owner who is not the customer. A beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

7.17 Enhanced customer due diligence could include any additional documentation, data or information that will confirm the customer's identity and/ or the source of the funds to be used in the business relationship/ transaction. If employees believe that enhanced customer due diligence is required then the MLRO must be consulted prior to carrying it out.

## Record Keeping

- 7.18 Where 'relevant business' is carried out then the customer due diligence records and details of the relevant transaction(s) for that client must **be retained for at least five years after the end** of the business relationship.
- 7.19 An electronic copy of every customer due diligence record must be sent to the MLRO to meet the requirements of the Regulations and in case of inspection by the relevant supervising body.
- 7.20 **Internal Clients:** Appropriate evidence of identity for Council employees will be signed, written instructions on Council headed notepaper or e-mail from an internal email address at the outset of a particular matter. Such correspondence should then be placed in the Council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.
- 7.21 **External Clients:** For external clients of the Council, appropriate evidence of identity will be written instructions on the organisation's official letterhead at the outset of the matter or an email from the organisation's e-communication system. Such correspondence should then be placed in the Council's client file along with a prominent note explaining which correspondence constitutes the evidence and where it is located.
- 7.22 With instructions from new clients, or further instructions from a client not well known to the Council, the employee may wish to seek additional evidence of the identity of key individuals in the organisation and of the organisation itself.
- 7.23 **If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one-off transaction(s) cannot proceed any further.**

## **8. Offence of Tipping Off**

- 8.1 If an employee has a concern they should ask questions or seek information/documentation, which would allay any suspicions they may have and negate the need to make a report.
- 8.2 Once a report has been made to the nominated officer or the person the Council is dealing with suspects that a report has been made the potential criminal offence of "tipping off" arises.
- 8.3 Tipping off is where someone informs the person who has approached the financial institution, such as the Council, that they are suspected of being involved in money laundering, in such a way as to prejudice any investigation.

## **9. Training**

- 9.1 In support of the policy and procedure, the Council will:

- Make all employees aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation.
- Give targeted training to those most likely to encounter money laundering.
- Prepare guidance notes to assist employees in the operation of this Policy (Appendix A).

## **10. The Responsible Officer**

- 10.1 James Walsh (Chief Finance Officer) is responsible for the operation of the Anti Money Laundering Policy.
- 10.2 Any employee who is dissatisfied with the application of this Policy should contact James Walsh (Chief Finance Officer) on 01922 652322.

# **APPENDIX A**

## **Walsall Council**

### **Anti Money Laundering Policy - Employee Guidance**

#### **1. What is Money Laundering?**

- 1.1 Money laundering is the disguising of the source of money, either in cash, paper or electronic form. This may be in order to conceal that the money has originated from crime, or it may be to conceal the source of money that is to be used in the pursuit of future crime.
- 1.2 Money laundering is highly sophisticated. The conversion of cash into a non-cash form of money is only the first step. In itself it is not sufficient disguise for the launderer. There will follow a complex series of transactions intended to hide the trail from any investigator. Consequently, those on the look out for money laundering should not restrict themselves to looking for cash transactions.
- 1.3 Drug dealing in particular is a business that generates large amounts of cash that the dealers then need to re-introduce to the legitimate economy through money laundering.
- 1.4 The financiers of terrorism will attempt to disguise their links with terrorism by laundering their funding.
- 1.5 The following acts constitute the act of money laundering under the Proceeds of Crime Act 2002:
  - Concealing, disguising, converting, transferring criminal property or removing it from the UK (Section 327).
  - Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (Section 328).
  - Acquiring, using or possessing criminal property (Section 329).

#### **2. Reporting of Suspected Money Laundering**

- 2.1 Where you know or suspect that money laundering activity is taking/has taken place, or has become concerned that your involvement in a matter may amount to a prohibited act under sections 327-329 of the Proceeds of Crime Act, this must be disclosed as soon as possible to the Money Laundering Reporting Officer (MLRO). The disclosure should be within “hours” of the information coming to your attention, not weeks or months later.

- 2.2 The officer nominated to receive disclosures about money laundering activity within the Council is James Walsh (Chief Finance Officer) who can be contacted on 01922 652322.
- 2.3 In the absence of the MLRO, Tony Cox (Head of Legal & Democratic Services and Monitoring Officer) is the appointed deputy who can be contacted on 01922 654824.
- 2.4 You must follow any subsequent directions of the MLRO or deputy, and must not make any further enquiries yourself. You must not take any further steps in any related transaction without authorisation from the MLRO.
- 2.5 You must not disclose or otherwise indicate your suspicions to the person suspected of the money laundering. You must not disclose the matter with others or note on the file that a report has been made to the MLRO in case this results in the suspect becoming aware of the situation. "Tipping off" is a potential criminal offence.
- 2.6 The offence of tipping off the money launderer that a disclosure has been made only occurs once a disclosure has been made or the person suspects that a disclosure has been made. **Consequently enquiries can be made of the individual to establish whether or not there is an innocent explanation before deciding whether or not to make a disclosure.** However, once you have reasonable grounds for knowing or suspecting that the individual is engaged in money laundering a report must be made and the suspected money launderer must not be informed of this.
- 2.7 It is an offence under the Proceeds of Crime Act if an employee enters into a transaction which they know or suspect facilitates the acquisition, retention, use or control of criminal property by, or on behalf of, another person.
- 2.8 These offences are punishable by a maximum term of imprisonment of 14 years at the Crown Court and an unlimited fine. At the Magistrates Court it is a 6 months maximum term of imprisonment and £5,000 fine.

### **3. How you might recognise Money Laundering**

- 3.1 The key slogan is "**Know Your Customer**".
- 3.2 For any transaction, cash or otherwise you should ask yourself: -  
"Given my knowledge of this person, is it plausible that they can pay this amount for this service by this means?"
- 3.3 If they are paying more than would be reasonable or more than they could afford or by a means that would not normally be used the answer would be **No**. Then action will be required.
- 3.4 More specific possible indicators of money laundering are:



- If the source or destination of funds differ from the original details given by the client.
- If the client cancels a transaction without good reason and requests a cheque refund for previously deposited funds.
- Payment of a substantial sum in cash.
- Large overpayments of fees or money on account in the subsequent request for refunds.
- A client requests a refund by cheque or to a different account.
- If information about the client reveals criminality or association with criminality.
- If there is more than one solicitor/ conveyancer used in the sale or purchase of a property or land or if there is an unexplained and unusual geographic use of a solicitor in relation to a property's location.
- If the buyer or seller's financial profile does not fit, particularly in relation to property transactions.
- If there are over complicated financial systems.
- If the client enters into transactions which make little or no financial sense or which go against normal practice.
- If the client is happy to enter into an apparent bad deal for them.
- If the client enters into arrangements beyond their apparent financial means.
- Any odd behaviour by any of the parties involved.
- Unusual property investment transactions if there is no apparent investment purpose or rationale.
- Re: property transactions, sums received the deposits or prior to completion from an unexpected source or instructions are given for settlement funds to be paid to an unexpected destination.

## **4. Examples of Potential Money Laundering Activities**

### **4.1 Social Care and Inclusion**

4.1.1 A social worker who is assessing a service user's finances to calculate how much they should pay towards the cost of care, then goes on to arrange for services to be provided and charged for and becomes aware of, or suspects the existence of, criminal property.

4.1.2 A Social Worker finds a large sum of money in a client's home.

## 4.2 Children's Services

4.2.1 A child protection case conference takes place; during the course of which it becomes clear that one of the parents is claiming benefits but has unexplained financial resources.

## 4.3 Benefits

4.3.1 A long running fraud is identified whereby a claimant owned a property instead of being a tenant. It is also found that another property is owned by the claimant's son, which he would not have had the legitimate means to purchase.

## 4.4 Legal/ Property Services

4.4.1 The Council agree to sell a parcel of land to a developer/third party, at a price that is far in excess of its value.

# 5. Client Identification Procedure

5.1 You need to be satisfied as to the identity of the client **before** any business is undertaken for that client. The client's identity can be verified on the basis of documents, data or information obtained from a reliable and independent source.

5.2 The following checklist should be used for the identification of a private individual:

- Name.
- Address.
- Date of birth.
- National Insurance number.
- Telephone number.
- E-mail address.

5.3 The following checklist should be used for the verification of a private individual:

- Passport.
- Driving licence.
- Birth certificate.
- Current council tax and / or utility bill.
- Marriage certificate.

- 5.4 In the case of a representative of an organisation, this can include measures such as:
- Checking the organisation's website to confirm the business address.
  - Attending the client at their business address.
  - Asking the key contact officer to provide evidence of their personal identity and position within the organisation.
- 5.5 Where the client is acting on behalf of a third party, reasonable steps should be taken to establish the identity of that other person.
- 5.6 **If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.**

## **6. Methods to Safeguard Yourself**

- 6.1 Obtain sufficient evidence/ knowledge to ascertain the true identity of the person(s) you are dealing with.
- 6.2 Ask the key contact officer to provide evidence of their personal identity and position within the organisation; for example signed, written confirmation from their Head of Service or Chair of the relevant organisation.
- 6.3 Surf the web to confirm details supplied.
- 6.4 Visit the client at their business address instead of always contacting them by telephone or e-mail or meeting at the Council Office. (This will help verify the validity of the client).
- 6.5 Retain evidence for a period of 5 years.

**APPENDIX B**

**WALSALL COUNCIL**

**CONFIDENTIAL**

**REPORT TO MONEY LAUNDERING REPORTING OFFICER**

**To:** James Walsh (Chief Finance Officer)

**From:** ..... **Extn:** .....

**Directorate:**..... **Service area:**.....

**DETAILS OF SUSPECTED OFFENCE:**

**Name(s) and address(es) of person(s) involved:**  
*(if a company/ public body please include details of nature of business)*

**Nature, value and timing of activity involved and cause of suspicion:**  
*(Please include full details e.g. what, when, where, how.)*

Has any investigation been undertaken (as far as you are aware)? Yes / No

**If yes, please include details below:**

Have you discussed your suspicions with anyone else ? Yes / No

**If yes, please specify below whom the discussion took place with, when and why such discussion was necessary:**

Do you feel you have reasonable justification for not disclosing the matter to the NCA, National Crime Agency e.g are you a lawyer and wish to claim legal professional privilege? Yes / No

**If yes, please set out full details below:**

**Please set out below any other information you feel is relevant:**

Signed..... Dated.....

**Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years imprisonment.**

**When completed, please pass immediately to James Walsh at The Council House, Lichfield Street, Walsall WS1 1TW; Email [james.walsh@walsall.gov.uk](mailto:james.walsh@walsall.gov.uk); Telephone 01922 652322.**

**Your report will be treated in the strictest confidence.**

**THE FOLLOWING PART OF THIS FORM IS FOR COMPLETION BY THE MLRO**

Date report received:

Date receipt of report acknowledged:

**CONSIDERATION OF DISCLOSURE**

**Action Plan**

**OUTCOME OF CONSIDERATION OF DISCLOSURE**

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds for suspicion, will a report be made to the NCA?

Yes / No

If yes, please confirm date of SARS report to the NCA: \_\_\_\_\_ and complete the box below:

Details of liaison with the NCA regarding the report:

Notice Period: \_\_\_\_\_ to \_\_\_\_\_

Moratorium Period: \_\_\_\_\_ to \_\_\_\_\_

Is consent required from the NCA to any ongoing or imminent transactions which would otherwise be prohibited acts? Yes / No

If yes, please confirm full details in the box below:

Date consent received from the NCA: \_\_\_\_\_

Date consent given by you to employee: \_\_\_\_\_

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the NCA, please set out below the reason(s) for non-disclosure:

*Please set out any reasonable excuse for non-disclosure)*

Date consent given by you to employee for any prohibited act transactions to proceed:

\_\_\_\_\_

Other relevant information:

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

***THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS***

# Protecting the English Public Purse 2015

*Fighting fraud against English Councils*





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## SUMMARY AND RECOMMENDATIONS

This is the first Protecting the English Public Purse (*PEPP 2015*) report by The European Institute for Combatting Corruption And Fraud (TEICCAF). *PEPP 2015*:

- has been developed by the former counter fraud team of the Audit Commission, now part of TEICCAF;
- continues the national series of reports previously published by the Audit Commission; and
- reports on **national, regional** and **local** fraud detection by English councils.

**In total, English councils detected fewer cases of fraud in 2014/15 compared with previous year. However, their value increased by more than 11 per cent. In particular:**

- the number of detected cases fell by more than 18 per cent to over 84,000 while their value increased by more than 11 per cent to greater than **£207 million**;
- the number of detected cases of **housing benefit and council tax benefit** fraud fell by more than half to just over 27,000 while their value fell by almost 17 per cent to nearly £23.5 million. This decline was expected; and
- the number of detected cases of non-benefit (corporate) fraud decreased by greater than 8 per cent to more than 57,000, while their value increased by greater than 63 per cent to more than £97 million.

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**English Councils  
detected fewer cases of  
fraud in 2014/15, but the  
value increased**

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**Councils detected fewer housing tenancy frauds in 2014/15. In particular:**

- 2,993 tenancy frauds were detected, a more than 1 per cent decrease on the previous year; and
- London continues to detect more tenancy fraud than the rest of the country combined.

**Regional and local fraud detection results suggest an emerging divergence in the capacity, capability and commitment of some councils to play an effective part in the fight against fraud. Using a series of proxy indicators we found that:**

- London achieved the highest participation rate (93.9 per cent) in our voluntary detected fraud survey, the highest proportion of corporate fraud teams (93.5 per cent) and proportionately detected the most fraud relative to council spend;
- two regions where fewer than half of all councils had corporate fraud teams both detected proportionately fewer frauds than their expenditure levels would suggest; and
- evidence that neighbouring councils with similar socio-economic and demographic characteristics are detecting markedly different levels of corporate fraud.

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**London detected the most fraud... relative to council spend**

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**Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have emerged as significant areas of fraud risk for councils. In particular:**

- RTB detected fraud cases more than **doubled** to 411, while their value increased by nearly 145 per cent to more than £30 million;
- we estimate that at least **3 per cent** of RTB applications in London are fraudulent, at least **1.5 per cent** in the rest of the country;
- legislative proposals to extend RTB to housing associations is likely to result in similar levels of RTB fraud to that encountered by councils. However, with a few notable exceptions, housing associations **do not** have the counter-fraud capacity or capability equivalent to councils to tackle such fraud; and
- NRPF is a new sub-category of fraud. Relatively few councils proactively targeted this type of fraud in 2014/15 yet there were still **444 cases** detected with a value more than £7 million.

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**RTB fraud detected was more than £30m, an increase of 145%**

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## Recommendations

### Councils should:

- use our checklist for councillors, senior officers and others responsible for audit and governance (Appendix 1) to review their counter-fraud arrangements;
- use our free, tailored benchmark comparative analysis (available from autumn 2015) to challenge poor performance;
- assess their own strategy in the context of the national *Fighting Fraud Locally 2015* strategy;
- give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud;
- accelerate re-focusing of counter fraud activities towards non-benefit (corporate) frauds;
- record and report fraud as fraud;
- celebrate and promote their performance in detecting fraud and corruption; and
- assess their exposure to RTB and NRPF fraud risks.

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**Give consideration to  
the social harm caused  
by fraud**

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### Government should:

- work in partnership with TEICCAF to better understand the nature and scale of RTB and NRPF frauds; and
- acknowledge and address the fraud exposure of housing associations to proposed changes to RTB legislation.

## TEICCAF will:

- collate, assess and disseminate good practice in tackling fraud;
- highlight the innovative good practice in tackling fraud that councils develop as a result of the recent DCLG challenge funding;
- work with our partner organisation, the Institute of Revenues, Rating and Valuation (IRRV) and Local Authority Investigating Officers Group (LAIOG), to better understand the nature and scale of business rate fraud/avoidance;
- annually track changes in tenancy fraud detection by regions;
- work in partnership with councils across England to develop *PPP* style reports for all regions;
- work in partnership with national regulators and other key stakeholders to develop national *PPP* style reports for Scotland, Wales and Northern Ireland;
- work with metropolitan districts and unitary authorities to increase their participation rate in our annual detected fraud and corruption survey;
- work in partnership with councils to promote the importance of counter fraud activities in those regions where more can be done to strengthen fraud detection;
- work in partnership with key stakeholders to develop a greater understanding of the nature and scale of RTB and NRPF frauds;
- develop guidance and provide support to tackle fraud and corruption, drawing upon the knowledge of national experts;

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**Develop both regional and national PPP reports in partnership with key stakeholders**

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**Develop a greater understanding of the nature and scale of RTB and NRPF frauds**

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- work with partner organisations to develop new fraud prevention and deterrence tools;
- work with councils to support the development of corporate fraud teams;
- work with key stakeholders to develop a methodology to assess the financial impact of fraud prevention activities; and
- publish information and guidance to raise public awareness and understanding of good practice in tackling fraud.

## CHAPTER 1: INTRODUCTION

*This is the first Protecting the English Public Purse (PEPP) report by The European Institute for Combatting Corruption And Fraud (TEICCAF). The former counter-fraud team of the Audit Commission, the previous authors of the Protecting the Public Purse series of reports, have joined with TEICCAF to continue publishing information on fraud and corruption detection by English councils.*

1. National *Protecting the Public Purse (PPP)* reports have played an important role in the fight against local authority fraud over the last 25 years. Published by the Audit Commission, the last report was published in 2014. The Audit Commission was abolished in March 2015.
2. *PPP* reports identified trends in fraud detection, highlighted and disseminated good practice in tackling fraud and identified current and emerging fraud risks.
3. In November 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) withdrew from an agreement to continue the counter-fraud work of the Audit Commission, including *PPP*. This potentially left a gap in local authorities' knowledge of current and emerging fraud trends.
4. In response to this and other concerns, a number of stakeholder organisations came together to form, '*The European Institute for Combatting Corruption And Fraud*' (TEICCAF). This includes the former counter-fraud team of the Audit Commission. TEICCAF agreed to continue the *PPP* series of reports, now called *Protecting the English Public Purse (PEPP)*, and the annual detected fraud and corruption survey. Further information on TEICCAF can be found in Chapter 7.

5. This continuation of the Audit Commission's counter fraud work through TEICCAF has met with a significant amount of approval. For example:

*“As the last Controller of the Audit Commission, I can confirm that the Protecting the Public Purse report series and the annual detected fraud survey had a significant and beneficial impact for English councils in their fight against fraud. The Commission's counter-fraud work was award winning, and the counter-fraud team that led on it were rightly recognised as national authorities on the collection, analysis and dissemination of such information.*

*While it was unfortunate that the detected fraud survey and PPP reports finished with the Commission's closure in 2015, it is greatly encouraging that TEICCAF, which includes the former counter fraud team of the Audit Commission, have stepped in to continue this valuable work. I encourage all local authorities to support this initiative.”*

**- Marcine Waterman,**  
Former Controller of the Audit Commission

6. In *PEPP 2015* our focus is to report year-on-year changes in cases and values of detected fraud, as well as highlighting longer term trends and regional developments. In future years we will focus on the identification and sharing of good practice.
7. *PEPP 2015* is for those with overall responsibility for tackling fraud and corruption at councils, including councillors. Above all, it aims to help local authorities understand the fraud risks they face and to assist the development of appropriate and proportionate counter-fraud arrangements at councils.



8. The National Policing Fraud Strategy<sup>i</sup> 2015 sets out a comprehensive framework through which fraud can be addressed. This strategy tackles the problem of fraud on a national, regional and local level. TEICCAF endorses this approach. *PEPP 2015* follows a similar structure. It provides:

- guidance on the interpretation of detected fraud and corruption data (Chapter 2);
- the amount of detected fraud reported **nationally** by local authorities in England in 2014/15 compared with 2013/14, including longer term trends (Chapter 3);
- data on **regional** trends in detected fraud (Chapter 4);
- data on **local** trends in fraud detection (Chapter 5);
- information on two significant emerging fraud threats, Right to Buy (RTB) and No Recourse to Public Funds (NRPF) (Chapter 6);
- outlines the support that TEICCAF will provide to assist the long-term development of robust and proportionate arrangements in the fight against fraud (Chapter 7); and
- contains a checklist for councils to assess their counter-fraud arrangements (Appendix 1).

9. Appendix 2 to this report summarises the fraud survey methodology and the information extrapolation approach we adopted to ensure comparability and continuity with Audit Commission trend data. Appendix 2 also provides information on our proxy indicator for RTB fraud.

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**The closure of NFA in March 2014 and the Audit Commission a year later created a significant gap...in the fight against fraud**

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### **A perfect storm for councils – the changing counter-fraud landscape**

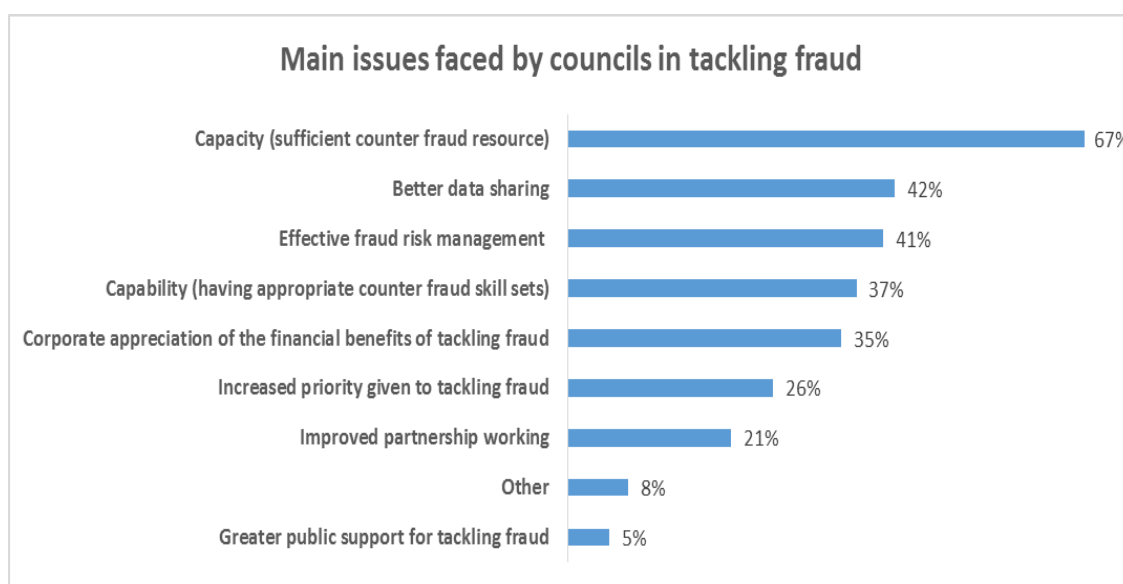
10. Recent years have witnessed significant changes in the counter-fraud landscape in local government. The closure of the National Fraud Authority in March 2014 and the Audit Commission a year later created a significant gap in the support, advice and leadership available to councils in the fight against fraud.

11. Local authorities have been subject to significant funding reductions since 2010, with more to come. *PPP 2014* reported a near 20 per cent reduction in counter-fraud investigators in councils in the four years up till March 2014.
12. Arguably the most important change for councils has been the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Works and Pensions. The transition to the SFIS began in July 2014 and will be complete in March 2016. In *PEPP 2015* we note the impact this change is beginning to have on local authority's fraud detection performance.
13. Longer term technological improvements in service delivery are also rapidly changing the fraud risk landscape, including the increasing adoption of digital technology by local authorities. The internet has transformed the ease with which fraudsters can operate across borders<sup>ii</sup>. TEICCAF will work with local authorities to better understand and mitigate the cyber related fraud risks that have arisen as a result.
14. There have also been positive developments. In November 2014 the Department for Communities and Local Government (DCLG) awarded £16 million to local authorities through a challenge fund. Councils that successfully bid received a share of this fund to support their efforts to re-focus their counter-fraud activities on non-benefit (corporate) frauds during the SFIS implementation. In future years we will highlight the innovative good practice that successful councils have developed using this fund.
15. In 2015, the new *Fighting Fraud Locally* strategy will be launched. This is a new three year national strategy to tackle local authority fraud. We encourage all councils to consider this strategy as part of their own arrangements to tackle fraud.

## The main issues councils face in tackling fraud

16. Our 2015 survey asked councils to identify the top three issues they face in tackling fraud. Two thirds of councils stated that the single most important factor is capacity (sufficient counter fraud resource) (Figure 1). Capacity was also the main issue last year. It is likely that the transfer of council counter fraud staff to SFIS is driving this continuing concern.

**Figure 1: Main issues faced by councils in tackling fraud**



17. However, SFIS also provides an opportunity for councils to focus resources away from housing benefit fraud and towards all the non-benefit (corporate) fraud risks they face.

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**Non-benefit (corporate) frauds have a far greater direct financial and harm impact on local people**

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18. Although tackling housing benefit fraud is important, non-benefit (corporate) frauds have a far greater direct financial and social harm impact on local people and local taxpayers. This re-focusing by councils towards frauds that have a significant and direct local impact is to be welcomed. Figure 2 provides more information on this long term trend.

19. Nationally, less than half (45.7%) of councils have a corporate counter fraud team tackling non-benefit fraud. However, this is not consistent across all regions. In London, 93.5 per cent of councils have a corporate fraud team. By comparison just 37.4 per cent of councils in the rest of the country have a corporate fraud team. We will continue to monitor this situation and work with councils to support development of corporate fraud teams.
20. Interpreted properly, detected fraud and corruption results can be instructive in identifying trends and emerging risks in fraud. Such data provide an important and robust evidence base for councils to inform their own proportionate and strategic response to fraud. However, there remains the risk that such information can be misunderstood and the wrong conclusions drawn. Chapter 2 provides a framework that councils can use to better understand and interpret detection trends.

## CHAPTER 2: INTERPRETING FRAUD DETECTION RESULTS

*Fraud detection results provide only part of the overall picture of how effective regions, and individual councils, are in tackling fraud. Detection results can be open to misinterpretation. Counter-intuitively, our experience shows that those councils that detect the most fraud are also often among the most effective at fraud prevention and deterrence. Generally, local authorities with particularly high levels of non-benefit fraud detection are typified by a strong corporate commitment to the fight against fraud.*

21. There are a number of factors that affect the level of fraud councils detect. These include:

- the level of fraud committed locally, often influenced by a number of socio-economic and demographic factors;
- the effectiveness of fraud prevention arrangements and deterrence strategies;
- correctly identifying fraud;
- capacity to fight fraud, measured by the resources devoted to identify and investigate it;
- the capability of the investigators employed, indicated by their levels of skills, knowledge and experience; and
- the effectiveness of methods of recording fraud.

22. As a result of these factors, care is needed when interpreting fraud detection results. They can be open to potential misinterpretation. Myths have developed over time which has acted as a barrier to effective counter-fraud activity. For example there is a myth that detecting little or no fraud provides assurance that little or no fraud is being committed. Some councils have used this 'myth' as justification to reduce their investigative capacity.

23. TEICCAF is uniquely positioned to challenge such myths. We are able to draw upon the knowledge and experience of the former counter-fraud team of the Audit Commission, now part of TEICCAF, and other expert partner organisations (see Chapter 7).

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**TEICCAF in uniquely  
positioned to challenge  
such myths**

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24. Based on our experience, we believe that:

- councils that look for fraud, and look in the right way, will find fraud;
- fraud affects every council, although socio-economic and demographic factors will impact on the type and level of fraud in different local authorities and regions;
- fraud will always be committed, but that prevention and deterrence strategies can reduce the harm caused;
- councils that report little or no detected corporate fraud are generally higher risk than those that detect significant levels of fraud; and
- fraud detection levels provide a useful indicator as to the level of commitment of individual local authorities to tackle fraud.

25. These are important factors when interpreting fraud detection results. In addition, different types of fraud will also require different fraud prevention, detection and deterrence strategies. This will depend on whether they are high volume/ low value frauds (such as disabled parking fraud) or low volume/ high value frauds (such as procurement).

26. In the next chapter we summarise English councils national fraud detection results for 2014/15.

## CHAPTER 3: NATIONAL FRAUD DETECTION BY COUNCILS

*Local authorities detected fewer cases of fraud in 2014/15 compared with previous year, continuing a trend first noted in PPP 2013. However, the value of losses from detected fraud has increased significantly.*

27. Previous PPP reports drew upon data collected by the Audit Commission's annual detected fraud and corruption survey for local government bodies. This survey was mandatory. TEICCAF is a not-for-profit organisation and does not have equivalent powers, thus participation in our detected fraud survey 2014/15 was voluntary. We outline our survey collection and extrapolation methodology in Appendix 2.

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**Fewer cases of fraud detected, however the value of losses increased significantly**

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28. The survey results:

- map the volume and value of different types of detected fraud;
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

29. Nearly six in ten English councils (59.5 per cent) participated in our survey. As TEICCAF was only formed in early 2015, this is a remarkable and highly encouraging response rate by councils. We thank all those councils who voluntarily participated. By drawing upon our unique knowledge and understanding of over six years of survey and fraud intelligence submissions provided by every local government body in England, we have been able to extrapolate from the survey responses the total value amount of fraud detected by every council in England (see Appendix 2 to explain our methodology).

30. Local authorities detected fewer frauds in 2014/15 (nearly 85,000) compared to the previous year (just over 104,000) (Table 1). The value of fraud detected in 2014/15 increased over the previous year, rising from £188 million to £207 million. This is the highest annual value of detected fraud since the data collection process began in 1991.

**Table 1: Cases and values of detected fraud, excluding tenancy fraud –  
Changes between 2013/14 and 2014/15**

Type of fraud	Detected fraud in 2014/15 (excluding tenancy fraud)	Detected fraud in 2013/14 (excluding tenancy fraud)	Change in detected fraud 2013/14 to 2014/15 (%)
<b>Total Fraud</b>			
Total value	£207,078,000	£186,382,000 <sup>1</sup>	11.1
Number of detected cases	84,608	103,743	-18.4
Average value per case	£2,447	£1,797	36.2
<b>Housing and council tax benefit</b>			
Total value	£109,707,000	£126,736,000	-13.4
Number of detected cases	27,323	41,369	-33.0
Average value per case	£4,015	£3,064	-31.0
<b>Council tax discounts<sup>2</sup></b>			
Total value	£18,624,000	£19,133,000	-2.7
Number of detected cases	48,160	54,749	-12.0
Average value per case	£387	£349	10.9
<b>Other frauds</b>			
Total value	£78,746,000	£40,513,000	94.4
Number of detected cases	9,125	7,625	19.7
Average value per case	£8,630	£5,313	62.4
<b>Source: PPP 2014 and TEICCAF</b>			

31. The 18.4 per cent reduction in total overall detected fraud cases is driven by the one-third reduction in detected cases of housing benefit (HB) and

<sup>1</sup> Detected fraud and corruption values and cases for 2013/14 have been adjusted to omit organisations such as police, fire and emergency services data previously included in Audit Commission Protecting the Public Purse reports. This adjustments ensures like-for-like comparisons between years.

<sup>2</sup> In PPP 2014 detected cases and value of Council Tax Reduction (CTR), the scheme that replaced Council Tax Benefit, were included in Housing and council tax benefit figures. However, for PEPP 2015, and in future years, CTR is included in Council tax discounts. The 2013/14 figures for both Housing and council tax benefit and Council tax discount in Table 1 have been adjusted accordingly.



council tax benefit (CTB) fraud. This fall continues a trend first noted in *PPP 2014*, with many councils starting to re-focus resources towards non-benefit frauds. We expect this trend to accelerate as councils complete the transfer of benefit fraud investigators to SFIS by March 2016.

32. The 12 per cent reduction in detected cases of council tax discount fraud is at first sight worrying, as council tax discount fraud is a direct loss to council coffers. However, interpreting council tax discount fraud results can be problematic. As a high volume/low value type of fraud, councils sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach designed to maximise the value for money benefits to the council concerned.

33. Previous *PPP* reports encouraged councils to do more to tackle non-benefit (corporate) frauds. Councils have responded well. Cases of 'Other' frauds increased by 19.7 per cent, while their value increased by 94.4 per cent. TEICCAF will work with local authorities to support this trend towards greater focus on corporate frauds.

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**Councils have responded well. Cases of "Other" frauds increased by 19.7 % (Value increase 94.4%)**

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34. We consider regional trends in more detail in Chapter 4.

## Loss and harm caused by fraud

35. Table 2 shows the estimate of annual loss undertaken by the National Fraud Authority (NFA) before it was abolished in 2014. Although a useful starting point to understand the scale of financial loss to fraud against local government, it excludes the two most important areas of council spend - social care and education - and one of the main areas of income generation (business rates). Major areas of emerging fraud risk are also excluded from this analysis, such as RTB and NRPF frauds (see Chapter 6).

**Table 2: Estimated annual loss to fraud in local government**

Category	Annual loss (million)	Fraud level (%)
Procurement	£876	1% of spend
Housing tenancy	£845	4% of London housing stock, 2% non-London stock, multiplied by £18,000
Housing benefit <sup>3</sup>	£350	0.7% (in 2013 – see footnote). Subsequently updated by Department of Works & Pensions
Payroll	£154	Not disclosed by NFA
Council tax discount	£133	4% on discounts and reliefs claimed
Blue badges	£46	20% of badges misused
Grants	£35	1% of spend
Pensions	£7.1	NFA – based on NFI detection levels

*Source: NFA Annual Fraud Indicator 2013*

36. We believe, because of the omissions highlighted above, that this measure of the scale of loss represents a significant underestimate of the true loss incurred annually by councils to fraud.

<sup>3</sup> £350 million was the housing benefit fraud estimate at the date the 2013 Annual Fraud Indicator was published by the National Fraud Authority. We recognise that subsequent measurement exercises have resulted in adjustments to the 2013 housing benefit fraud estimate.

37. Table 2 also excludes the social harm caused by fraud. For example, the local family in temporary accommodation who cannot be allocated a council home because of fraudsters' illegally sub-letting council homes for profit. This has been shown to have a long term detrimental effect on health, education and socio-economic opportunities for the families concerned<sup>iii</sup>.

38. Fraud also diminishes public trust in local authorities.

The abuse of the blue badge (disabled parking) concessions by fraudsters is a good example of this. Not only does such fraud prevent those in genuine need and entitlement from accessing required parking facilities, but it also reduces the public's confidence in the blue badge system.

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**Fraud also diminishes  
public trust in local  
authorities**

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39. Councils should give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud.

## Non- benefit (corporate) fraud

40. Table 3 highlights the main fraud types in the 'Other' group in Table 1. These account for almost £71.5 million of the more than £207 million detected by councils in 2014/15.

**Table 3: Ten main 'Other' frauds against councils in 2013/14 and 2014/15**

Fraud type	Number of cases 2014/15	Value 2014/15	Number of cases 2013/14	Value 2013/14	Changes in case number 2013/14 to 2014/15	Change in case value 2013/14 to 2014/15
Right to Buy	411	£30,247,573	193	£12,361,858	113.0	144.7
Abuse of position	221	£9,747,682	341	£4,020,580	-35.2	142.4
Insurance	473	£9,172,614	226	£4,776,300	109.3	92.0
No Recourse to Public Funds	444	£7,115,446	N/A	N/A	N/A	N/A
Social Care	291	£4,286,767	438	£6,261,930	-33.6	-31.5
Debt fraud	1,083	£2,890,638	1,061	£1,789,365	2.1	61.5
Economic and third sector support	102	£2,392,773	36	£741,867	183.3	222.5
Procurement	86	£2,349,352	127	£4,437,965	-32.3	47.1
Disabled parking concessions (Blue Badge)	4,371	£2,185,500	4,055	£2,027,500	7.8	7.8
Business rates	171	£1,089,780	84	£1,220,802	103.6	-10.3

**Source: PPP2014<sup>4</sup> and TEICCAF**

41. Interpreting these results can be problematic, as annual percentage changes in results can be affected by a few costly frauds in either year. Procurement fraud is an example of this; detected cases decreased by 32.3 per cent, but detected value increase by 47.1 per cent.

<sup>4</sup> All prior year analysis and data published in this report is derived from publicly available information. This includes previous PPP reports as well as presentational material by the Audit Commission to national and regional conferences and forums.

42. In particular, we note:

- Right to Buy (RTB) fraud cases have more than doubled in the last year. This continues a trend first reported in *PPP 2013*. We will explore this in more detail in Chapter 6;
- insurance fraud continues to rise, with the value and number of cases nearly doubling. We suggest that this is probably as a result of greater attention given to such fraud in recent years by local authorities, rather than an increase in the amount of insurance fraud being committed;
- cases of economic and third sector fraud have increased by 183 per cent, with values increasing by over 220 per cent. Economic and third sector fraud involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non-governmental organisation including, but not limited to: grants paid to landlords for property regeneration; donations to local sports clubs; and loans or grants made to a charity;
- business rate fraud cases have more than doubled, although the total value detected has dropped slightly. Fluctuations in value are to be expected, given some individual business rate frauds have been worth over £1 million. In part, the increase in cases may have resulted from greater national attention given to this risk in recent years. We will work with one of our partner organisation, the Institute of Revenues, Rating and Valuations - recognised national experts in business rates - to better understand such fraud; and
- emergence of 'No Recourse to Public Funds' (NRPF) as a major area of fraud detection. This is a relatively new fraud risk and 2014/15 is the first year it has been designated as a specific fraud type in our survey. Thus to already be the fifth largest of the 'Other' frauds detected is both remarkable and concerning. Most NRPF fraud has to date been detected by London boroughs<sup>iv</sup>. We will consider this in more detail in Chapter 6.

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**Right to Buy fraud cases  
have more than doubled in  
the last year**

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## Housing tenancy fraud

43. The number of social homes recovered from tenancy fraudsters decreased slightly, by 1.2 per cent in the last year (Table 4).

44. We define housing tenancy fraud as:

- subletting a property for profit to people not allowed to live there under the conditions of the tenancy;
- providing false information in the housing application to gain a tenancy;
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant; or
- failing to use a property as the principal home, abandoning the property, or selling the key to a third party.

**Table 4: detected tenancy frauds by region**

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2014/15 (% of total properties recovered)	Number of properties recovered in 2013/14 (% of total properties recovered)	% changes in number of properties recovered 2013/14 to 2014/15
London	426,307 (27)	1,618 (54)	1,807 (60)	-10.5
West Midlands	200,714 (13)	475 (16)	425 (14)	11.8
Yorkshire & the Humber	226,901 (14)	208 (7)	140 (5)	48.6
East of England	132,918 (8)	174 (6)	187 (6)	-7.0
South East	159,248 (10)	160 (5)	129 (4)	24.0
East Midlands	145,069 (9)	115 (4)	136 (4)	-15.4
South West	90,292 (6)	106 (4)	111 (4)	-4.5
North East	102,455 (6)	99 (3)	59 (2)	67.8
North West	104,120 (7)	39 (1)	37 (1)	5.4
<b>TOTAL</b>	<b>1,588,023</b> (100)	<b>2,993</b> (100)	<b>3,030</b> (100)	-1.2

**Source: PPP 2014 and TEICCAF**

45. London, with 27 per cent of the nation's housing stock, continues to recover far more properties from fraudsters than the rest of the country (54%). However, in 2014/15 London detected 10.5 per cent fewer tenancy frauds than the previous year. This suggest tenancy fraud detection in the capital may have plateaued. We will track this development.

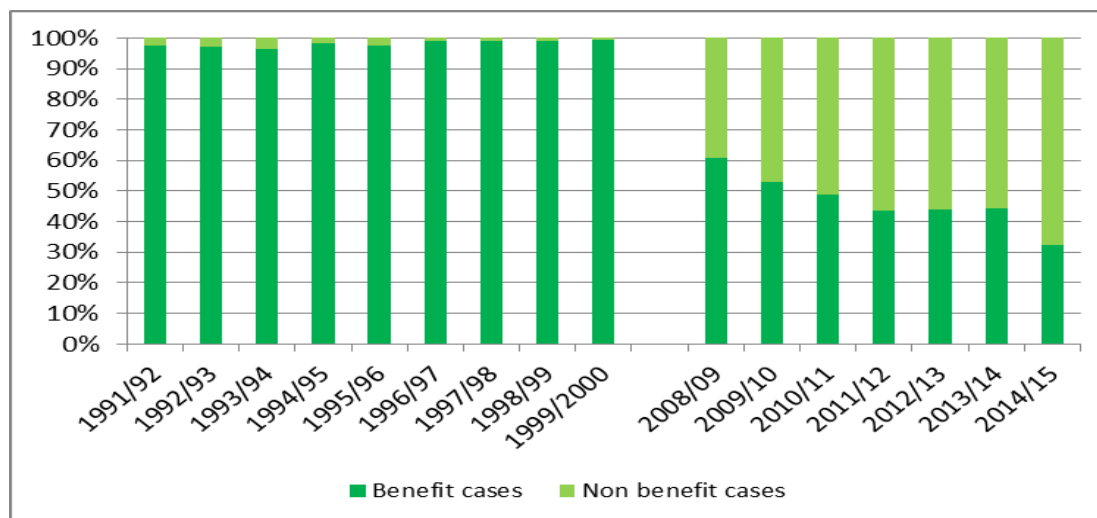
46. The North East (67.8%), Yorkshire and the Humber (48.6%), the South East (24.0%), the West Midlands (11.8) and the North West (5.4%) all recorded increases in the number of properties recovered. This is encouraging.
47. However, analysis of the data shows that these increases are, in the main, due to the performance of a few individual councils in each of those regions. There remain councils with housing stock that do not tackle tenancy fraud.
48. Of all councils with housing stock, nearly a third (31.3 per cent) did not recover a single property from a tenancy fraudster. However, the variation between council types is stark, with over half (54.5 per cent) of district councils recovering no properties, compared with a fifth (21.7 per cent) of metropolitan districts and unitary authorities, but only 3.4 per cent of London boroughs

### **Continuing the shift in focus from benefit to non-benefit (corporate) fraud**

49. *PPP 2014* noted the long term shift in councils' focus from benefit to non-benefit (corporate) fraud. Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefit. When the *PPP* series re-started in 2009, that figure had increased to 39 per cent. By 2014/15, this has risen to 67.7% (Figure 2).



**Figure 2: Long term trend in benefit and non-benefit (corporate) frauds detected**



50. This trend is not unexpected. From the early 1990s financial incentives were introduced by the government encouraging councils to tackle benefit fraud. However, these financial incentives were gradually reduced and later phased out leaving councils with only administration grants<sup>5</sup>. Councils still committed significant, although reducing, proportions of their counter-fraud resources to tackle benefit fraud.

51. In this chapter we have considered national trends in fraud detection. In Chapter 4 we consider regional trends in more detail and explore the potential capacity, capability and commitment of some parts of the country to tackle fraud.

<sup>5</sup> The administration grant is paid to councils by central government to administer housing and council tax benefits. An element of this funding is intended to fund HB counter fraud activities.

## CHAPTER 4: REGIONAL TRENDS, TRANSPARENCY AND ACCOUNTABILITY

*English councils are more transparent and accountable in the fight against fraud than any part of the UK public, private or voluntary sectors. By turning an appropriate spotlight on the issue, local authorities have been able to better understand and challenge their own performance. However, indicators suggest an emerging divergence in the capacity, capability and commitment of some regions and councils to tackle fraud*

52. English councils were, until relatively recently, more transparent and accountable in the fight against fraud than any other part of the UK public, private and voluntary sectors. No other sector collected and published information for the entire sectors' national, regional and local levels of detected fraud.

53. This year we note in particular the commitment of London Boroughs in the fight against fraud. In 2015, as the result of a collaboration between London Borough Fraud Investigators Group (LBFIG) and TEICCAF, the first ever *PPP* style report highlighting the fraud detection benchmarking performance of just one region (London) was published.

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**English councils are more transparent and accountable in the fight against fraud than any part of the UK public, private or voluntary sectors**

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54. This report is called *Protecting the London Public Purse 2015 (PLPP 2015)*. We encourage all English regions to work in partnership with TEICCAF to publish similar regionally focused *PPP* style reports in the future. We believe similar reports would benefit other nations such as Scotland, Wales and Northern Ireland.

55. By publicising the success some councils have had in tackling fraud, other councils have sought to emulate them and in so doing raised the standard of counter fraud throughout the sector. TEICCAF is committed to working with councils to continue a high degree of transparency and accountability, through *PEPP* and similar public reports.

## The positive impact of transparency and accountability

56. Turning the spotlight on fraud in local government has had some spectacular results. For example, a three-fold increase in tenancy fraud detection in the four years after *PPP* first highlighted the issue in 2010<sup>v</sup>.

57. *PPP 2013* reported that 88 districts, London Boroughs metropolitan district and unitary authorities had not detected a single non-benefit fraud in 2012/13. However, by utilising comparative benchmark information supplied by the Audit Commission in 2013, councillors were able to challenge local detection performance. One year later and *PPP 2014* reported that those councils that reported detecting no non-benefit fraud had more than halved to just 39. This is a remarkable improvement and an encouraging trend.

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**Turning the spotlight on tenancy fraud in local government has led to a three-fold increase in detection.**

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## Regional fraud detection trends - capacity, capability and commitment to tackle fraud

58. In this chapter we will now consider whether regional capacity, capability and commitment to tackle fraud is consistent across the country.

59. To make this assessment we have used three proxy indicators of a region's (or council's) capacity, capability and commitment to effectively tackling fraud. They are:

- regional fraud detection levels compare to each regions percentage of total national spend;
- regional participation levels in our 2015 voluntary detected fraud and corruption survey; and
- proportion of councils in each region with a corporate fraud team.

60. We acknowledge that there are justifiable reasons why some regions and councils may not have addressed all, or some, of the indicators (Table 5). However, taken in totality we believe the balance of the argument suggests some form of association between the proxy indicators chosen and overall corporate capacity, capability and commitment to tackling fraud.

**Table 5: Detected frauds and losses 2014/15 by region compared to regional spend, survey participation levels and corporate fraud teams**

Region	Council spending by region as % of total spending	Regional % of total value of all fraud detected in 2014/15	Regional % of number of cases of all detected fraud 2014/15	% of councils in each region that participated in the voluntary survey	% of participating councils in each region with a corporate fraud team
East of England	10.3	10.6	12.1	67.9	65.7
East Midlands	7.7	5.1	7.0	54.5	29.2
London	18.2	35.3	23.1	93.9	93.5
North East	5.4	4.3	5.4	50.0	83.3
North West	13.6	10.3	8.1	56.1	34.8
South East	15.0	13.0	15.5	57.3	68.3
South West	9.1	6.5	7.9	61.0	52.0
West Midlands	10.8	8.0	9.9	51.5	29.4
Yorkshire & the Humber	10.1	6.9	10.9	31.8	57.1

*Source PPP 2014 and TEICCAF*

61. We caveat our interpretation by recognising that:

- our detected fraud and corruption survey was voluntary and councils in some regions would have justifiable local reasons not to participate. However, we would argue that response rate are effected by several factors, one of which is corporate commitment to tackling fraud;
- councils may be of such a relatively small size that it is not operationally efficient to have a corporate fraud team. However, it is the view of TEICCAF that such councils should be seeking to form local partnerships that act as a corporate counter-fraud resource. Encouragingly, some councils have already started to develop such partnerships; and
- there will always be some variation in the volume and value of frauds detected depending on the scope of activity of individual councils. However, within certain parameters, reasonable inferences between the proportions of council spend, detection results and corporate commitment to tackling fraud, remain valid.

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**The two regions with the highest survey participation level both detected more fraud by value and cases than their regional expenditure would have suggested likely**

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62. From our analysis we note that:

- London boroughs achieved the highest participation rate in the voluntary survey, have the highest proportion of councils with a corporate fraud team and disproportionately detect significantly more frauds (both by case and total value) than any other part of the country;
- the two regions with the highest survey participation level (London and East of England) both detected more fraud by value and cases than their regional expenditure would have suggested likely;
- the two regions where fewer than half of councils had corporate fraud teams (East Midlands and West Midlands) both detected proportionately fewer frauds (by both cases and total value) than their expenditure would suggest likely;

- the three regions with the lowest level of corporate fraud teams (East Midlands, West Midlands and North West) all detected proportionately fewer frauds (cases and total value) than their expenditure would suggest was likely; and
- Yorkshire and the Humber had the lowest survey participation rate of any region, detected proportionately fewer cases of fraud than overall regional expenditure would have suggested was likely, but by value detected more frauds than would have been proportionately expected.

63. Further research is needed to understand better the relationship between these three indicators.

64. Voluntary survey submissions rates analysed by authority type is also quite revealing (see Table 6).

**Table 6: Detected survey submission rates by authority type 2014/15**

Authority type	% participating in the voluntary fraud detection survey
London Boroughs	93.9
County Councils	66.7
District Councils	59.7
Metropolitan Districts and Unitary Authorities	44.6
<b>Total</b>	<b>59.5</b>

65. London boroughs achieved a near 94 per cent response rate. Using survey participation rates as a proxy indicator, this suggest that not only is London as a region arguably the most committed to tackling fraud but also as an authority type. We commend London Boroughs for this commitment, as we also do for County Councils (66.7 per cent) and District Councils (59.7 per cent). These authority types participated in the survey at a level above the national average (59.5 per cent).

66. Less than half of Metropolitan Districts and Unitary Authorities participated in the survey. We will work in partnership with these authorities to increase their participation rate in future surveys. It is

through a high participation rate that meaningful benchmark analysis is possible.

67. It is good practice for councils to maintain accurate information and data on its counter-fraud activity, including levels of detected fraud. Without this information:

- meaningful local fraud risk analysis and detection performance benchmarking is not possible;
- internal and external audit assurance is more limited; and
- councillors ability to provide strategic vision is impaired.

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**It is good practice for councils  
to maintain accurate  
information and data on  
counter-fraud activity**

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68. We do not advocate that information on fraud detection at individual councils is made public, as this only aids fraudsters. Even making public the number of fraud investigators a council employs speaks volumes to a fraudster about the likelihood of success and getting caught.

69. Rather we advocate as best practice that audit committees are kept fully informed of counter-fraud activity and take a strategic lead on tackling fraud.

70. Our analysis in this chapter suggests an emerging divergence in the capacity, capability and commitment of some regions to fight fraud. In the next chapter we will examine local trends in more detail.

## CHAPTER 5: LOCAL TRENDS

*National and regional trends can conceal significant variations in performance by similar, and often neighbouring, councils within individual regions. Councillors have a role to play to challenge where individual local performance is weak.*

71. Virtually every council in England has a counter-fraud policy that in general terms states:

- responsibility to prevent and detect fraud and corruption lies with all staff and councillors of the organisation; and
- the council has adopted a zero-tolerance approach to fraud and corruption.

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**Councillors have an increasingly important role to play in challenging their own authority's counter-fraud performance**

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72. Councillors have an increasingly important role to play in challenging their own authority's counter-fraud performance. However, from a statutory perspective the ultimate duty to prevent and detect fraud and corruption at individual English local authorities lies with the 'Section 151' officer. That duty is set out in Section 151 of the Local Government Act 1972<sup>vi</sup>.

73. TEICCAF is committed to supporting local councillors and 'Section 151' officers, traditionally the Director of Finance, in these important roles. Thus later this year we will provide free to every council that participated in our 2015 detected fraud and corruption survey, a benchmarked summary analysis of their own councils' individual performance. This is critical information to help inform local priorities.

### Local variations in fraud detection

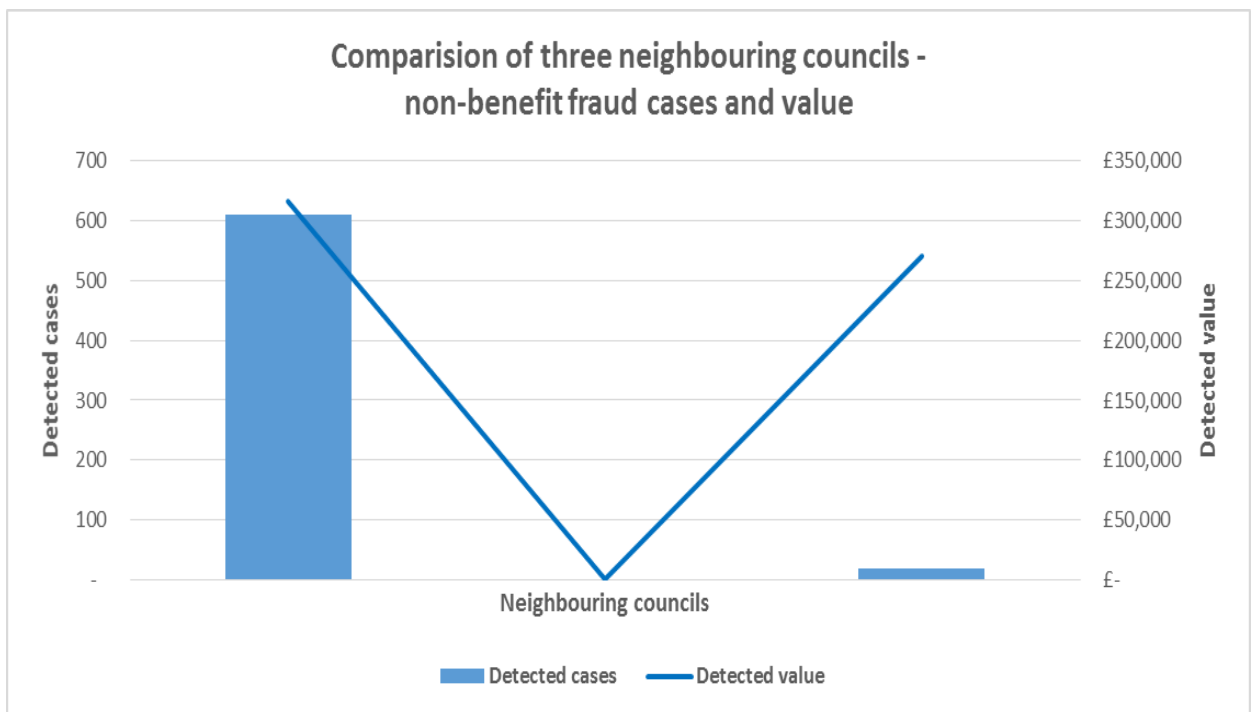
74. Our analysis indicates there are sometimes significant variations in the number of cases and values of fraud that councils across the country detect. This can be explained, in part, by several factors including the counter fraud priorities and plan of individual councils in specific years.



75. However, we have found that neighbouring councils similar in size, demographic make-up and activity can report markedly different levels of corporate fraud detection.

76. As an example, Figure 3 shows the analysis of total non-benefit (corporate) frauds detected by three neighbouring councils in 2014/15 with similar socio-economic and demographic characteristics.

**Figure 3: Comparison of three neighbouring councils' non-benefit fraud cases and total values**



77. The difference is quite marked. One council has detected over 600 cases of corporate fraud with a total value in excess of £300,000. That council is to be commended. One neighbouring council reported 19 corporate frauds detected with a value of £270,000. Of concern is that the third council reported no detected corporate frauds.

78. Based on our experience, it is highly unlikely that no fraud has been committed at this third council. More likely, that council has limited capacity or capability to tackle corporate fraud. Local councillors have a

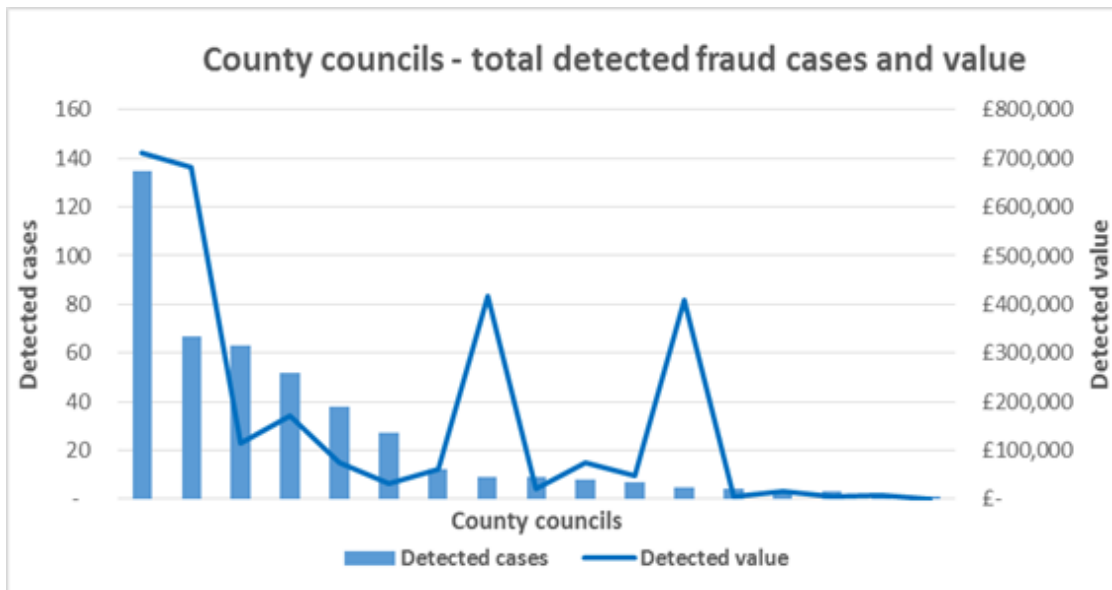
role to challenge local commitment and priorities at councils that are detecting little or no corporate fraud.

79. An analysis of the data nationally demonstrates that this is far from an isolated incident. TEICCAF will work with councils and regions to support local initiatives to address these issues.

## County Councils

80. Figure 4 shows county councils total detected fraud cases and their value.

**Figure 4: County councils - total detected fraud cases and value**



81. In Figure 4, one county detected 135 cases of fraud with a total value of £711,000. By contrast, we note that five county councils detected fewer than five cases of fraud in 2014/15. On average, those five counties detected £6,400 of fraud.

82. The variation observed in Figure 4 is not unexpected. Early identification of fraud can often result in smaller total values. This reflects the widely accepted view that, all other things being equal, the longer a fraud is in operation the greater the amount defrauded is likely to be. This is an important consideration when interpreting detected fraud results. Thus low total value of detected fraud may reflect early identification of the fraud rather than any lack of capacity, capability or commitment by the council.

83. We will now consider fraud detection performance in relation to just one type of corporate fraud, namely council tax discount fraud.

### Council tax discount fraud

84. Nationally a third of households claim single person discount on council tax, although this varies significantly between individual councils. Figure 5 shows levels of actual detected council tax (CTAX) discount fraud in just one English region in 2014/15, including single person discount. We provide this as an example of the variation in council tax discount fraud detection that occurs in some part of the country. Every bar in Figure 5 represents a district council in the region concerned.

**Figure 5: One region – council tax discount fraud detected cases and values**

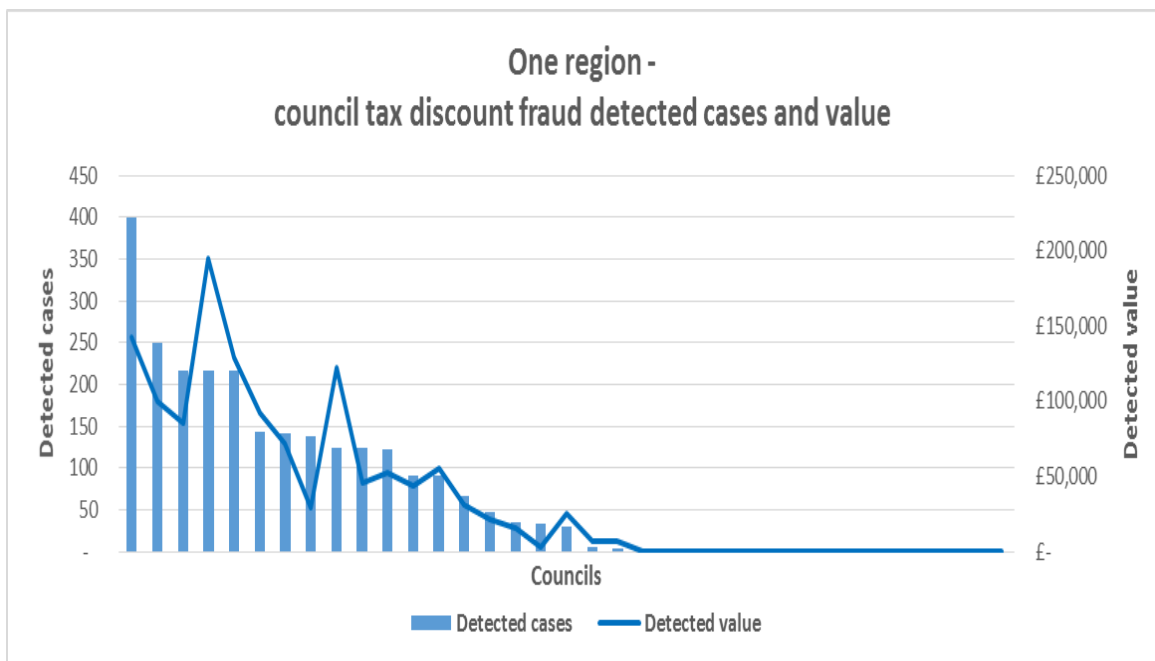


Figure 5 shows that some councils are effectively detecting CTAX discount fraud. One council in this region detected approximately 400 cases of such fraud in 2014/15. By comparison over a third of councils in this region report detecting no CTAX discount fraud. This pattern is replicated across the country.

85. It may be that the councils that reported no detected fraud cases instead incorrectly recorded them as something other than fraud, such as error. This is not good practice. Fraud should always be recorded as fraud.

86. Interpreting CTAX discount fraud results can be problematic. As a high volume/low value fraud, councils sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach designed to maximise the value for money benefits to the council concerned. This may explain why some councils did not detect many, if any, cases in 2014/15.

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**One council in this region detected approximately 400 cases of such fraud in 2014/15. By comparison over a third of councils in this region report detecting no CTAX discount fraud**

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87. This chapters provides just a few examples of the variation in fraud detection levels at individual councils across the country. Some of this variation can be explained by different local priorities in different years. However, our experience suggests that where little or no corporate fraud is being detected, then counter fraud capacity, capability and the commitment of the local authorities concerned may require greater scrutiny.

88. In the next chapter we focus on two emerging frauds that our survey indicates are likely to be increasingly significant in future years.

## CHAPTER 6: EMERGING FRAUD RISKS – RTB AND NRPF

*RTB and NRPF frauds account for much of the increase in the total value of fraud detected in 2014/15. However, these are relatively little known frauds. Our proxy indicator suggests at least 3 per cent of RTB applications in London, 1.5 per cent in the rest of the country, may be subject to such fraud. NRPF has emerged this year as a new area of risk, especially in London. Further research is needed to better understand these emerging risks.*

89. In Chapter 3 we identified RTB and NRPF as two emerging fraud risk categories deserving of further consideration.

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**RTB and NRPF frauds account for much of the increase in total value of fraud detected in 2014/15**

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### **Right to Buy (RTB) fraud**

90. In 2012, the government relaxed the qualifying rules and raised the discount threshold for Right to Buy (RTB) in relation to council homes. This encouraged greater opportunity for council house tenants to own their own home.
91. In *PPP 2014*, the Audit Commission highlighted the unintended consequences of these changes. The significant sums involved, and the relentless increases in property values, especially in London, had made RTB discount fraud highly attractive to fraudsters. In the three years immediately after the discount increase was implemented, there has been a near ten-fold increase in the number of RTB frauds detected.
92. There is no nationally accepted estimate of the scale of RTB fraud. This is a significant barrier to the development of a proportionate response by councils to this fraud risk.
93. To help social housing providers better understand the scale of the fraud risk, we have undertaken an analysis of existing publicly available information, matched to detected RTB frauds. We have used this to develop a proxy indicator of the likely scale of RTB fraud. We separately calculated the results for London and non-London councils. Further information on our data sources, caveats and methodology can be found in Appendix 2.

94. We have prudently interpreted the results and triangulated those findings with previous housing tenancy fraud research. On that basis we believe the evidence suggests that at least 3 per cent of London RTB council house applications may be subject to fraud<sup>vii</sup>. In the rest of the country RTB fraud may be at least 1.5 per cent of RTB applications.

95. These results are intended only to be indicative of the likely scale of RTB fraud. More detailed research is required to better estimate the scale of RTB fraud. We encourage authoritative stakeholders to work with TEICCAF in the future to better understand the nature and scale of RTB fraud.

96. In the 2015 Queen’s Speech, the government announced that, *“Legislation will be introduced to support home ownership and give housing association tenants the chance to own their own home”*.

97. We draw to the government’s attention the significant levels of fraud that councils have detected within the current RTB scheme for council housing stock. Housing associations, with a few notable exceptions, do not have either an equivalent capacity or capability to tackle RTB fraud.

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**We encourage the government to incorporate within the proposed legislative extension sufficient measures to protect housing associations against RTB fraud**

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98. We encourage the government to incorporate within the proposed legislative extension sufficient measures to protect housing associations against RTB fraud.

### **No Recourse to Public Funds (NRPF) fraud**

99. In recent months a number of councils, mainly London boroughs, approached TEICCAF to highlight an emerging fraud risk, namely, ‘No Recourse to Public Funds’ (NRPF). This fraud involves persons from abroad who are subject to certain immigration controls which prevents them from gaining access to specific welfare benefits or public housing.

100. However, families who have NRPF may still be able to seek assistance, housing and subsistence from their local authority whilst they are awaiting for or appealing a Home Office decision on their status<sup>viii</sup>. In some instances councils have been deceived into providing welfare and other state assistance where NRPF has been claimed fraudulently.

101. In some of these frauds this appears to have been achieved by fraudulently claiming family status with children who, on further investigation, may not be their own. NRPF is a locally administered scheme, thus creating the potential for multiple claims at different councils using the same alleged 'family'.
102. In London, applications for financial assistance from families with NRPF have started to rise quite dramatically in recent times<sup>ix</sup>. Leading commentators suggest that the average cost to the local taxpayer to support one NRPF family is approximately £25,000 per family per year.
103. In the first year of separately recording this category of fraud, councils detected in total 444 cases valued at more than £7 million. This already constitutes one of the larger value fraud types detected. Our analysis indicates many councils have yet to look for such fraud, suggesting that far more NRPF fraud could be detected.
104. London Boroughs<sup>x</sup> have been among the first to identify this emerging threat. However, councils across other regions of England have also started to report detecting NRPF fraud.
105. Pro-active preventative work in London suggests the scale of the problem that councils may be facing. At one London Borough, all new NRPF applicants are now subject to both identity document scans and credit checks. The Borough reports that on being informed that such checks will be undertaken, approximately 10 per cent of new claimants now withdraw their application. Not all of these will be fraudulent, but this does suggest the potential scale of such fraud.
106. TEICCAF urges the government to give greater priority to the fight against NRPF fraud. Further research is needed to better understand the nature and scale of this emerging fraud threat.

## Conclusions

107. Councils have to be ever vigilant to identify trends and emerging fraud threats. The fraud risk associated with RTB is only now starting to be better understood. NRPF fraud is less well known. Pro-active action by some councils suggest this is a growing threat that requires further consideration.
108. Appendix 1 provides a checklist for councils to self-assess their high level counter-fraud arrangements. We also encourage councils to use our benchmark summary analysis of individual fraud detection results for 2014/15 to satisfy themselves that they are playing their part in the fight against fraud (free to all councils who participated in our detected fraud survey, available autumn 2015).



## CHAPTER 7: LOOKING TO THE FUTURE - TEICCAF

*Fraud and corruption risks are constantly evolving. Local authorities need to remain vigilant to new fraud risks and respond quickly to the changing ways in which fraudsters target existing areas of vulnerability. Fraud prevention will become an increasingly important part of the overall strategic response by councils to fraud. TEICCAF is well placed to support this shift in focus.*

### The European Institute for Combatting Corruption And Fraud (TEICCAF)

109. TEICCAF is an independent, not-for-profit organisation. Founded in April 2015, TEICCAF is committed to working in partnership to help tackle public and voluntary sector fraud and corruption.
110. TEICCAF was established, in part, as a response to concerns from key stakeholders about the emerging gap in counter-fraud leadership that had developed by early 2015. The need for an independent, authoritative, not-for-profit voice able to influence national, regional and local responses to fraud is increasingly viewed as a priority by the wider counter-fraud community.
111. TEICCAF is committed to providing choice, innovation and value for money in the support and guidance we will provide. We will focus on those areas where we have acknowledged expertise, such as social housing fraud.
112. We will also focus on fraud risks where we are uniquely able to draw upon specialist knowledge from TEICCAF member organisations such as the Institute of Revenue, Rating and Valuations (IRRV) or the Local Authority Investigating Officers Group (LAIOG).
113. In *PEPP 2015* we have highlighted areas in which TEICCAF will work in partnership to help tackle fraud. This chapter expands on the priority issues to be addressed.

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**TEICCAF is committed to providing choice, innovation and value for money in the support and guidance we will provide**

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## Capacity, capability and risk

114. Local authorities have traditionally been quick to respond to emerging fraud risks. However, as capacity to tackle fraud continues to reduce across English local government, innovative new approaches are required to address both the main fraud risks as well as new, emerging frauds.
115. The National Crime Agency<sup>xi</sup> (NCA) and City of London Police<sup>xii</sup> have highlighted the increasing importance of technology, in particular internet and digital, on economic crime. Fraudsters have been quick to adapt and innovative. Councils must also continue to do so.
116. TEICCAF is able to draw upon the expertise of a wide variety of fraud fighters to assist and support the sector to stay one step ahead of the fraudsters. In particular we will seek to work in partnership to identify and promote good practice in tackling cyber enabled fraud.
117. The National Policing Fraud Strategy 2015 highlights the importance of prevention activities. Local authority counter-fraud specialists tell us the absence of a financial means to assess fraud prevention activities is a major hindrance to a national re-balancing of counter-fraud resources towards greater fraud prevention activities.
118. We will work with partners and stakeholders to promote an agreed understanding of the financial benefits of prevention activity. We will work in partnership with local authorities to develop an approach that allows prevention work to be accurately reported nationally, regionally and locally.
119. To support this approach, TEICCAF will collect, analyse, and promote good practice in tackling all types of public and voluntary sector fraud. This database of good practice will be available to all TEICCAF members.

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**TEICCAF will work with partners and stakeholders to promote an agreed understanding of the financial benefits of prevention activity**

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## **New approaches to tackling major fraud risks**

120. Our analysis of social housing fraud detection shows that sub-letting for profit remains one of the most common types of social housing fraud, especially in London<sup>xiii</sup>. New approaches to prevent and deter such fraud are required. TEICCAF will work with concerned stakeholders to develop new preventative tools to deter such fraud.
121. Managing the risk of fraud was one of the top priority areas councils highlighted to us this year (Chapter 1). Fraud detection data is a vital component of effective fraud risk management. While we recognise there may be justifiable local reason why approximately 40 per cent of councils did not participate in our voluntary fraud detection survey, one possible explanation is the absence of robust and complete detection data at some of those councils. We will work with councils to improve the recording of fraud detection results.
122. We noted that even among participating councils in the survey, there is sometimes a delay in providing the data. This suggest fraud detection data collection arrangements in some councils may require to be strengthened. We will work with partner organisations to improve the recording, collection, analysis and future dissemination of fraud detection information.
123. TEICCAF believes that the general public can make a significant contribution to the fight against fraud. We are committed to raising fraud awareness and wider public understanding of good practice in fighting fraud.
124. Chapters 5 and 6 highlighted an increasing divergence amongst some councils and regions in their capacity, capability and commitment to tackling fraud. We will work with individual councils and regions to address this.

## Contacting TEICCAF

125. You can learn more about TEICCAF from our web site and contact us through social media. Details are below

- [www.teiccaf.com](http://www.teiccaf.com)
- <https://www.facebook.com/pages/T-E-I-C-C-A-F-The-European-Institute-for-Combatting-Corruption-And-Fraud/372191179638143>
- <https://www.linkedin.com/groups/TEICCAF-8293282/about>
- <https://twitter.com/teiccaf>

## APPENDIX 1: CHECKLIST FOR THOSE RESPONSIBLE FOR COMBATting FRAUD AND CORRUPTION

	Yes	No	Comments
1. A) Do we have a zero tolerance policy towards fraud?			
1. B) Does our fraud and corruption detection results demonstrate that commitment to zero tolerance?			
2. Do we have a corporate fraud team?			
3. Does a councillor have portfolio responsibility for fighting fraud across the council?			
4. A) Have we assessed our council against the TEICCAF fraud detection benchmark analysis (available autumn 2015)			
4. B) Does that benchmark analysis of fraud detection identify any fraud types which we should give greater attention to?			
5. Are we confident we have sufficient counter-fraud capacity and capability to detect and prevent non-benefit (corporate) fraud, once SFIS has been fully implemented?			
6. Do we have appropriate and proportionate defences against the emerging fraud risks, in particular: <ul style="list-style-type: none"> <li>• Right to Buy fraud</li> <li>• No Recourse to Public Funds fraud.</li> </ul>			

## APPENDIX 2: DATA COLLECTION APPROACH AND EXTRAPOLATION METHODOLOGY

### Survey methodology

1. In previous years the Audit Commission used its powers to mandate all local government bodies in England to annually submit information and data on detected fraud and corruption (the survey). As a result the survey achieved a 100 per cent submission rate.
2. TEICCAF do not have similar powers. The 2014/15 detected fraud and corruption survey was voluntary. However, we are able to draw upon the extensive knowledge and experience of the (former) Audit Commission counter fraud team that had created and delivered the original national detected fraud survey and *PPP* reports.
3. This team are able to draw upon a unique understanding of over six years of survey and fraud intelligence submissions by every local government body in England. This has been used to put in place arrangements that ensures quality, validity, accuracy and robustness of the data submitted.
4. Information sources used include previous *PPP* reports, Audit Commission national publications and conference, seminar and fraud forum presentations and supporting analysis by the former counter-fraud team of the Audit Commission. These have all been placed in the public domain. We have extensively this information to inform longer term trends in the report as well as to assess the accuracy and completeness of individual data submissions.
5. In addition weighted extrapolation was undertaken to inform regional results where appropriate. Where a council has not participated in the survey, we have used weighted trend data to calculate their results.

### RTB fraud – proxy indicator methodology

6. We have used detected RTB frauds as a proportion of all successful RTB applications (combined with detected frauds) as an indicator of the likely scale of RTB fraud. Our information sources are:

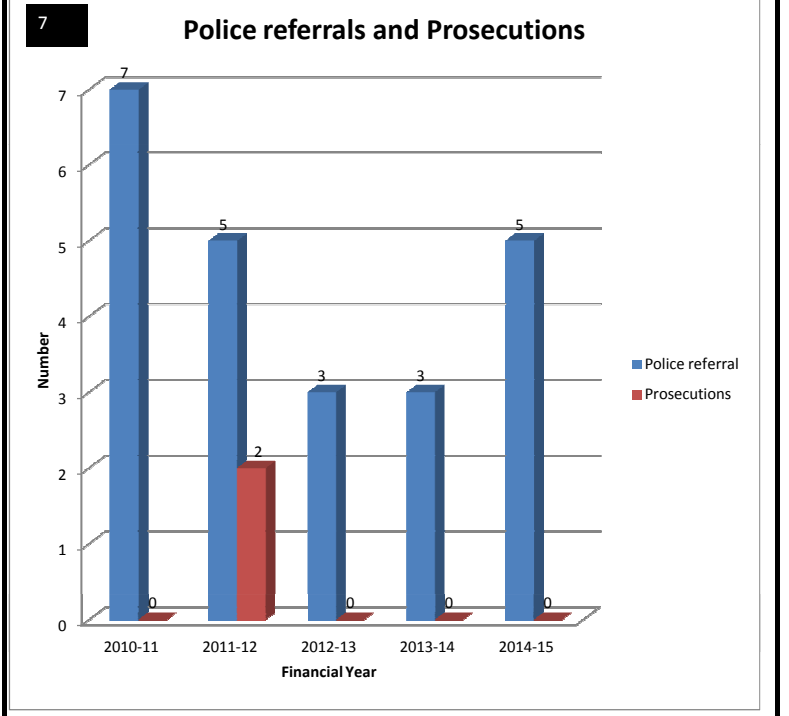
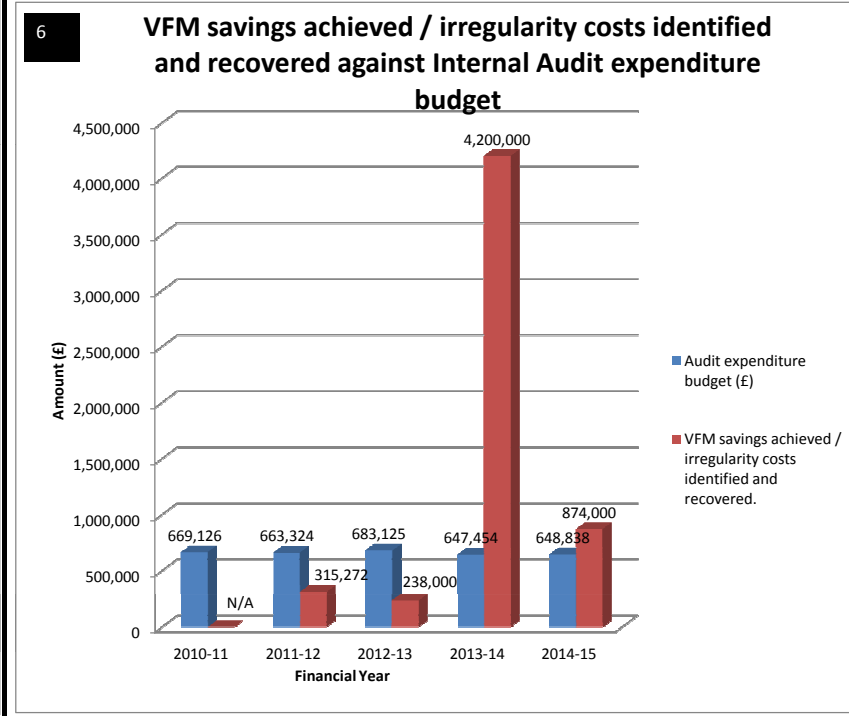
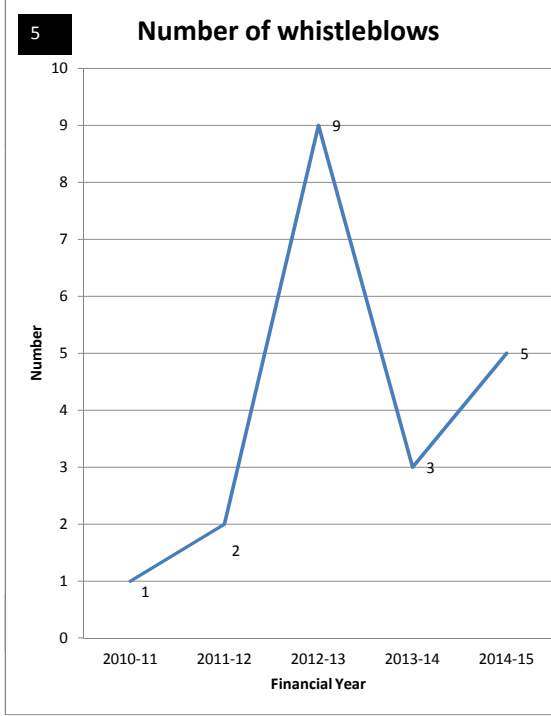
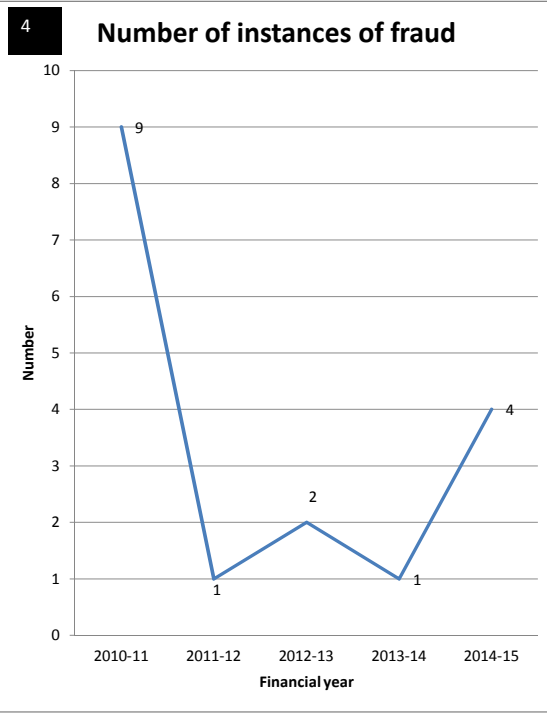
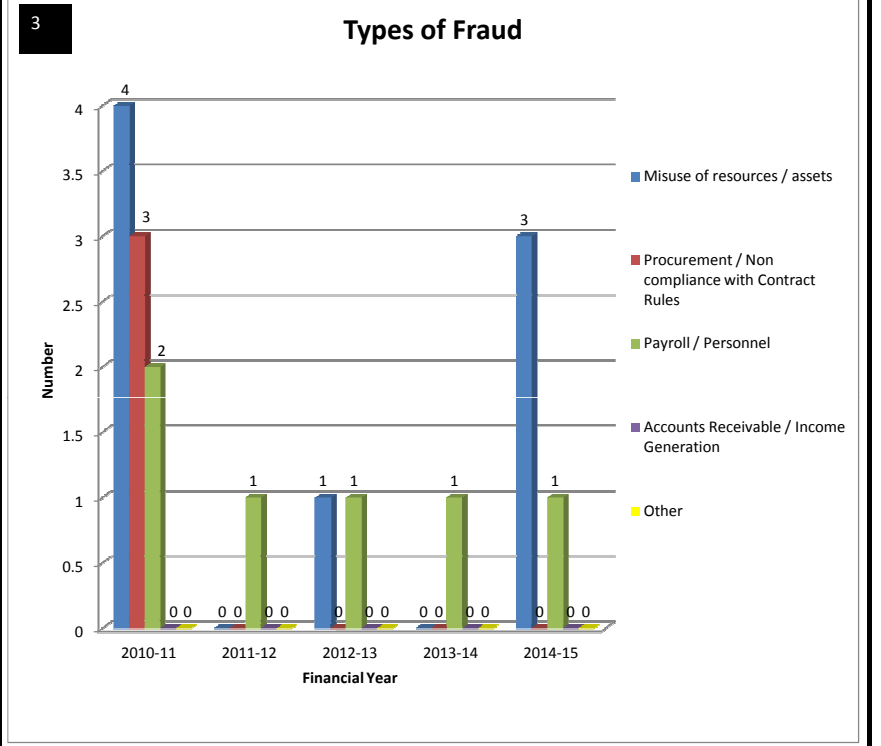
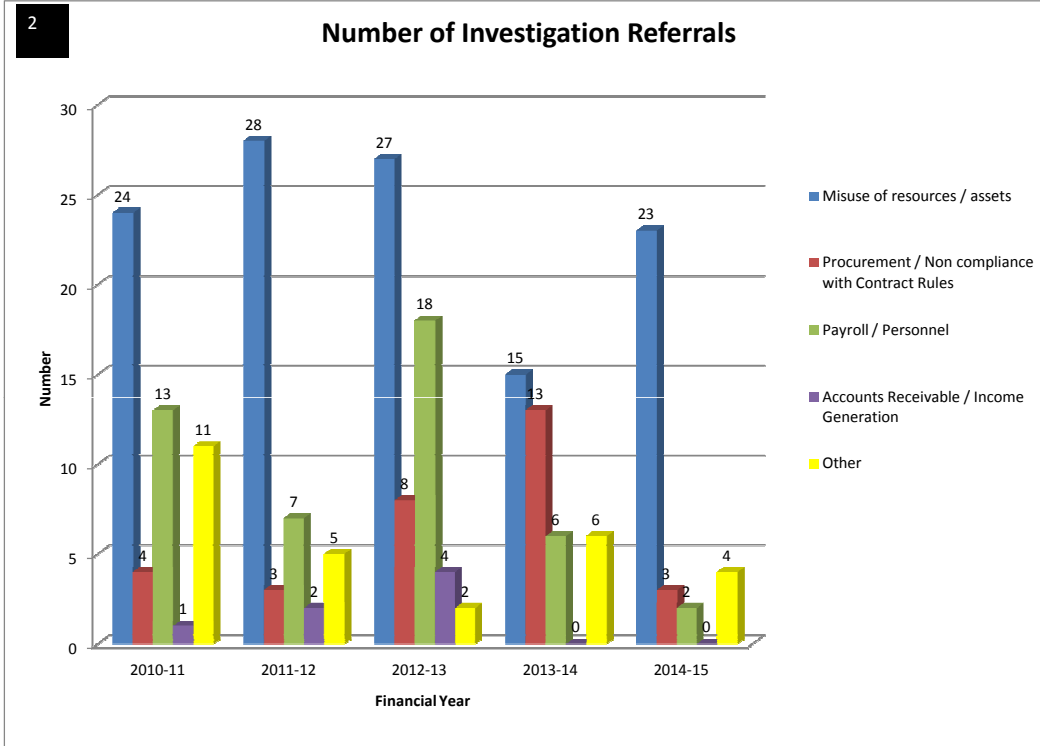
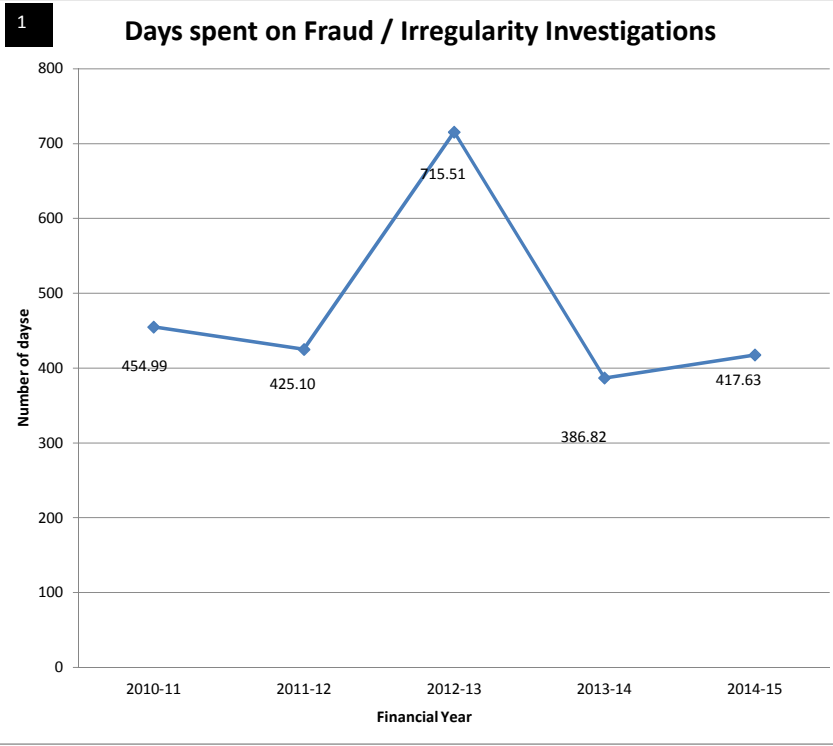
- detected RTB frauds 2013/14 (source PPP 2014)
  - detected RTB frauds 2014/15 (source: TEICCAF)
  - successful RTB applications 2013/14 and 2014/15 (source: Department for Communities and Local Government, Housing Statistical Release June 2015).
7. Our approach analysed both London and non-London RTB activity. We triangulated those findings with housing tenancy fraud research, including London (Ref PPP 2012).
  8. On that basis we believe the evidence suggests that at least 3 per cent of London RTB council house applications are subject to fraud. In the rest of the country the evidence suggest RTB fraud to be at least 1.5 per cent.
  9. Our approach adopts a prudent interpretation of the results, to address acknowledge limitations in the methodology.
  10. We caveat our estimate by acknowledging that:
    - the findings are only indicative in nature; and
    - our analysis omits RTB applications which were unsuccessful for non-fraud reasons.

## REFERENCES

- <sup>i</sup> National Policing Fraud Strategy 2015, City of London Police.
- <sup>ii</sup> Serious and Organised Crime Strategy 2013, National Crime Agency
- <sup>iii</sup> Protecting the Public purse 2010, Audit Commission.
- <sup>iv</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>v</sup> Protecting the Public Purse 2014, Audit Commission
- <sup>vi</sup> <http://www.legislation.gov.uk/ukpga/1972/70/section/151>
- <sup>vii</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>viii</sup> Legislation includes Children's Act 1989, Children Leaving Care Act 2000 and National Assistance Act 1948.
- <sup>ix</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>x</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>xi</sup> Serious and Organised Crime Strategy 2013, National Crime Agency.
- <sup>xii</sup> National Policing Fraud Strategy 2015, City of London Police.
- <sup>xiii</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF



Performance Dashboard - Counter Fraud & Irregularity



## CHECKLIST FOR THOSE RESPONSIBLE FOR COMBATting FRAUD AND CORRUPTION

	Yes	No	Comments
1. A) Do we have a zero tolerance policy towards fraud?	✓		The counter fraud policy explicitly states that the Council has a zero tolerance towards attempted or actual fraud against it.
1. B) Does our fraud and corruption detection results demonstrate that commitment to zero tolerance?	✓		<p>Fraud and corruption detection results demonstrate the commitment to zero tolerance towards fraud.</p> <p>There is evidence that the whistle blowing policy is utilised at the council. Further, there is evidence of referrals being received from both staff and members of the public raising concerns.</p> <p>There is evidence that that the Council applies sanctions, including internal disciplinary, regulatory and criminal where applicable, in addition to seeking redress, including the recovery of assets and money where possible.</p>
2. Do we have a corporate fraud team?	✓		There is an allocation of time within the approved internal audit plan for the investigation of corporate counter fraud and corruption work. Counter fraud work is detailed within internal audit's counter fraud action plan.
3. Does a councillor have portfolio responsibility for fighting fraud across the council?	✓		<p>Internal audit are situated within Councillor Bird, Leader of the Council's portfolio. The Investigations Manager (for benefits) is situated within Money, Home, Job, part of the Shared Services and Procurement portfolio, for which Councillor Arif has portfolio responsibility.</p> <p>The Audit Committee also have responsibilities in relation to 'fighting</p>

			fraud', namely in considering the council's counter fraud and corruption arrangements and receiving routine reports on activity in this area.
4. A) Have we assessed our council against the TEICCAF fraud detection benchmark analysis (available autumn 2015)		✓	This has not yet been undertaken. Walsall Council will assess against the TEICCAF fraud detection benchmark analysis once it becomes available in Autumn 2015.
4. B) Does that benchmark analysis of fraud detection identify any fraud types which we should give greater attention to?		✓	As point 4A above.
5. Are we confident we have sufficient counter-fraud capacity and capability to detect and prevent non-benefit (corporate) fraud, once SFIS has been fully implemented?	✓		As point 2 above.
6. Do we have appropriate and proportionate defences against the emerging fraud risks, in particular: <ul style="list-style-type: none"> <li>• Right to Buy fraud</li> <li>• No Recourse to Public Funds fraud.</li> </ul>		✓	<p>'Right to buy' is no longer applicable at Walsall Council to the extent that the Council no longer holds social housing stock. The council does, however, retain the right to enforce identified tenancy fraud related offences, where they are identified, on behalf of housing associations via legislation as part of the Housing Fraud Act.</p> <p>No Recourse to Public Funds fraud – NRPf is a new sub-category of fraud. NRPf fraud involves people who are subject to specific immigration controls which prevent them from gaining access to specific welfare benefits or public housing. Individuals concerned have, on occasion, been able to deceive councils into providing welfare and other state assistance. In some cases this appears to have been done by claiming family status with children who, on further enquiry, may not be their own. NRPf is a locally administered scheme, thus creating the potential for multiple claims at different councils using the same alleged 'family'.</p> <p>An assessment will be carried out to establish whether this is a potential risk area for Walsall Council.</p>