

# fraud and corruption tracker

Summary Report 2016



**CIPFA COUNTER  
FRAUD CENTRE**

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## Foreword

Numerous reports and publications have been written to help organisations fight fraud. The reports raised awareness of fraud prevention, detection and deterrence activity across the sector and enabled local authorities to benchmark their responsiveness against other organisations facing similar risks and set best practice.

This report gives a national picture of fraud, bribery and corruption in the UK's public sector and the actions being taken to prevent it. It summarises the results of a survey carried out among authorities in England, Scotland, Wales and Northern Ireland by the CIPFA Counter Fraud Centre. The survey is supported by the National Audit Office (NAO), National Crime Agency (NCA) and Local Government Association (LGA). This is the second survey of this type conducted by the CIPFA Counter Fraud Centre and has given us the opportunity to look for achievements, trends and emerging threats in the sector.

This report will appeal to all areas of the public sector, including local authorities, health and the emergency services and will:

- help organisations understand where fraud losses could be occurring
- provide a guide to the value of detected and prevented fraud loss
- help senior leaders understand the value of anti-fraud activity
- assist operational staff to develop pro-active anti-fraud plans.

The survey was supported by:



## The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre, launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission, and the subsequent transfer of benefit investigations to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions (DWP). The CIPFA Counter Fraud Centre leads and co-ordinates the fight against fraud and corruption across public services in providing a one-stop-shop for thought leadership, counter fraud tools, resources and training.

Fraud often knows no limit or boundary and thus it is CIPFA's intention to better equip public sector organisations in the future, through widening the scope of the survey to assist agencies locally and inform the national picture.



## Summary

Since the closure of the Audit Commission there has been no requirement for local authorities to report fraud committed against them. CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of local government bodies to provide services to people who need them. CIPFA's Counter Fraud Centre was set up to help the public sector develop cost-effective counter fraud arrangements and runs an annual survey to create a national picture of the amount, and types, of fraud carried out against public sector organisations.

This is the second CIPFA Counter Fraud and Corruption Tracker (CFaCT) report. The survey gathered data from across the UK and included:

- local authorities
- police and crime commissioners
- transport authorities
- fire and rescue authorities
- waste authorities
- public agencies.

### Results from the 2016 survey:

- The largest area of growth in fraud investigation is in procurement. Investigations in this area went up by five times in the year.
- Business rates continue to be an area of concern with right to buy becoming an emerging risk, particularly in London.
- Respondents reported the number of non-benefit investigators has increased by nearly 50% since the 2014/15 report. Organisations with a limited counter fraud capability may not have completed the survey.
- 10% of organisations who responded have no dedicated counter fraud service.
- What is perceived as a high risk area for fraud varies across the country and by organisation.
  - Non-local authority respondents (eg police, fire and rescue services, and passenger executives) reported that their top three areas of fraud risk were:
    - procurement
    - expenses
    - manipulation of data.
- Local authority respondents noted their largest fraud risk areas as:
  - council tax
  - housing procurement.
- CIPFA estimates approximately £325m worth of fraud has been detected or prevented within the public sector in 2015/16.
- CIPFA estimates approximately 88,000 cases were investigated in 2015/16 across the UK, representing an average value of £3,600 per case.
- 56% of respondents had access to a financial investigation resource which allowed them to recover money from convicted fraudsters. Respondents recovered £18.4m through proceeds of crime investigations.
- The highest number of investigations covered council tax fraud (65%) with an estimated value loss of £24m. The highest value gained from investigations was in the area of housing fraud and totalled £208m.
- Respondents told us that their biggest issues in countering fraud were:
  - having the capacity to identify fraud risk and investigate allegations
  - having effective fraud risk assessment and management
  - barriers to data sharing.

## Recommendations

CIPFA recommends the following:

- Public sector organisations should carry out fraud assessments regularly and have access to appropriately qualified counter fraud resources to help mitigate the risks and effectively counter any fraud activity.
- All organisations should undertake an assessment of their current counter fraud arrangements.
- In line with the Fighting Fraud and Corruption Locally Board suggestion, local authorities should examine and devise a standard and common methodology for measuring fraud and corruption. Once it has been agreed, local authorities should use the measure to estimate levels of fraud and corruption.
- It is as important to prevent fraud that has no direct financial interest, such as data manipulation and recruitment, as it is high value fraud
- Organisations should develop joint working arrangements where they can with other counter fraud professionals and organisations.
- Public bodies should continue to raise fraud awareness in the procurement process, not only in the tendering process but also in the contract monitoring element
- Authorities should ensure that anti-fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigations into alleged frauds to be undertaken.

# Introduction

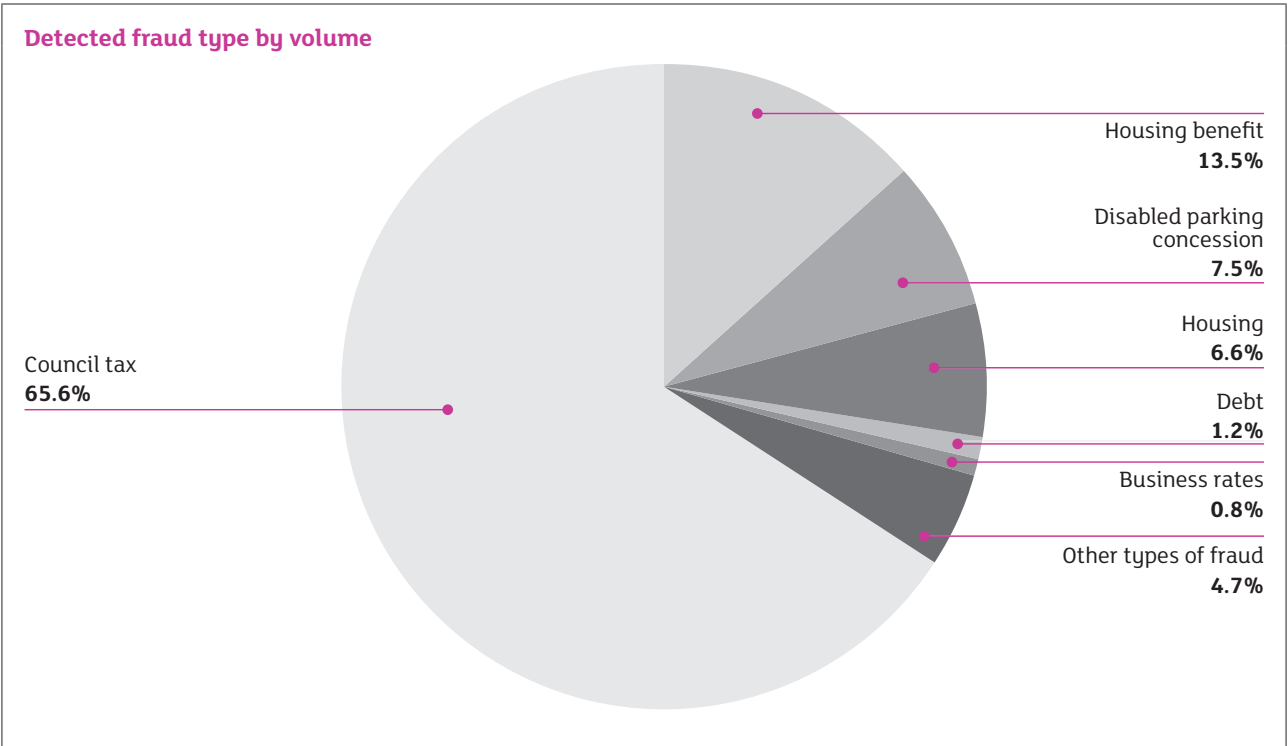
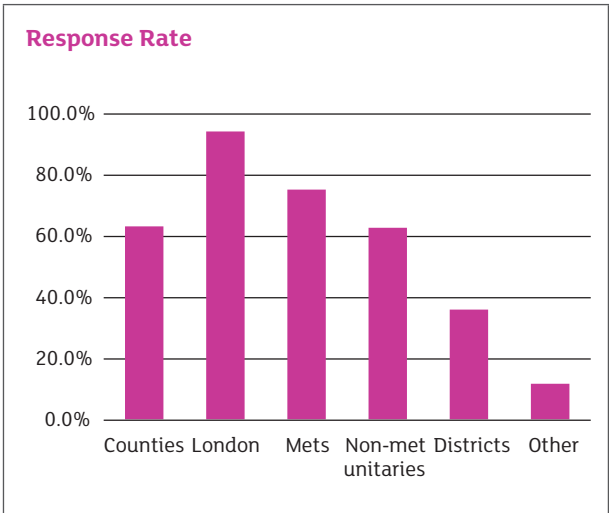
This report is based on the findings of the CIPFA Fraud and Corruption Tracker (CFaCT) survey 2016 and identifies and focuses on types of fraud activity common in the public sector such as procurement, housing and expenses.

Fraud is an ongoing problem and this report seeks to examine the extent of the problem and recognise public sector organisations whose activity to tackle fraud has resulted in successes, either in the areas of prevention or detection. While it focuses on frauds specifically experienced in local authorities, many types of fraud discussed can be experienced by any organisations.

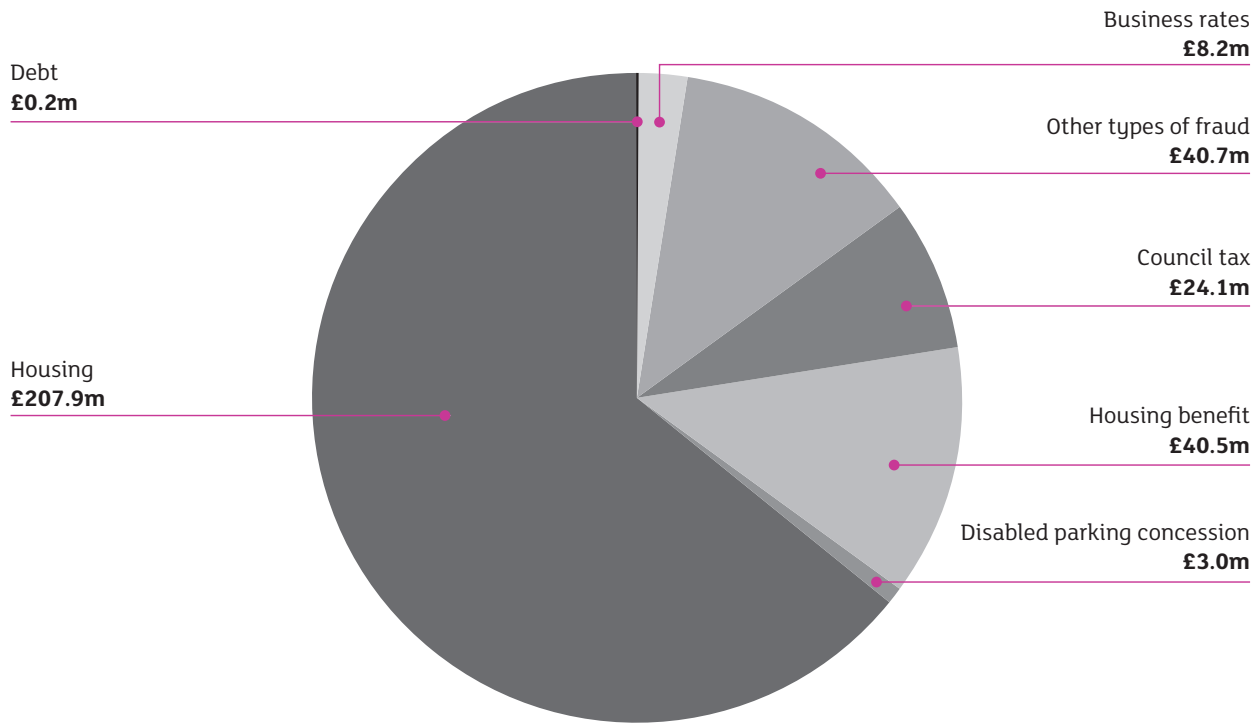
The CFaCT survey received a spread of results across all regions. We received a good response, particularly from London boroughs. The low response from district authorities could be due to the fact that larger fraud risks are managed at county level. District councils were also the most likely not to have access to a counter fraud function.

It is important to note that the measurement of the value of fraud loss has varied between authorities within several areas. For example, with regard to mandate fraud some organisations record the loss prevented and others record nothing at all.

Below are the response rates for the CFaCT survey:



### Estimated value of fraud detected



## Main types of fraud

### Council tax

The area of council tax includes investigations in the following areas:

- council tax single person discount
- council tax reduction support
- other types of council tax fraud, eg other exemptions, discounts or evasion.

Council tax fraud represents the highest number of fraud cases reported by local authorities. According to respondents, 59 local authorities responsible for the collection of council tax undertook no investigations into the area of single person discounts. Of those authorities that did carry out council tax single person discount reviews, there is a wide variance in the number of cases recorded as fraud. There are three reasons for this:

1. Local authorities identify exceptions as a result of data matching exercises but do not undertake formal investigations in each matter.

2. Local authorities consider council tax single person discount fraud risk sits within their revenues department as a compliance issue rather than within their counter fraud teams.
3. Local authorities investigate specific cases of fraud as they are referred.

Local authorities are required to undertake local risk assessments and identify the most efficient way in which to mitigate high volume, low value fraud risk. Local authorities should consider carefully whether examining 2,500 exceptions:

- a. indicates a weakness in controls
- b. is a good use of the counter fraud resource
- c. is an issue that would be most efficiently managed within the authority's revenues department.

Many councils retain links with local DWP investigators to help with investigations into council tax reduction fraud. Such links can prove important to investigations in other areas, including housing and social care frauds, where social security fraud may also be involved.

Single person discount, council tax reduction and other types of council tax fraud combined represent an estimated 57,681 cases and £24.1m in detected and prevented fraud.

#### Council tax fraud breakdown

	Volume of cases	Value of cases
SPD	44,012	£15.6m
CTR	12,078	£7.1m
Other	1,582	£1.4m
Total	57,681	£24.1m

#### Housing benefit

Fraud within the housing benefit scheme includes all deliberate and dishonest actions to obtain money to which the applicant was not entitled, including failure to report changes that would affect the amount of money paid.

Although local authorities are no longer responsible for the investigation of housing benefit fraud, it was still recognised as one of the top three risks for local authorities. Although the DWP has responsibility for the investigation of alleged fraud, it is the local authority's responsibility to collect any overpaid benefit. This generates a cost and risk for the authority.

#### Case study – Oldham Council

Oldham Council worked with DWP to create the Single Fraud Investigation Service (SFIS) as part of a 'pilot' National Programme. One of the key requirements of the pilot was to capture results in order to:

- inform the creation of the National Programme
- ensure that staff involved were sufficiently supported to allow a smooth transition
- develop an appropriate and responsive retained corporate counter fraud team.

In July 2014, the council was one of the first of five pilot authorities to transfer responsibility for the investigation of benefit fraud to the newly created SFIS. The council also retained some of the benefit investigators in order to develop a corporate counter fraud team to respond to alleged frauds committed against the council and help mitigate fraud risks faced by the council.

Audit and counter fraud managers created an in-house team with the skills to meet the current and future needs of the council. The two key areas being:

- recognising any residual risk to the council following the transfer of benefit fraud to SFIS, and developing effective processes for cases involving claims for CTR and the role of the retained council team
- determining the appropriate and adequate level of resources for the retained team to meet demand and to continue to deliver a professional service in accordance with the agreed professional and technical quality standards.

The council's fraud team worked together with the SFIS around council tax fraud and the referral of potential housing benefit fraud cases. Both parties met other relevant agencies on a weekly basis to conduct local joint anti-fraud initiatives.

As a result of the SFIS the fraud team exceeded expectations and achieved three times more cases than in previous years and identified overpayments totalling £375,000.

**£24.1m:**  
the estimated total of council tax  
fraud detected and prevented in  
2015/16



According to respondents the number of housing benefit frauds investigated in 2014/15 was 12,989 cases and involved a loss value of £56.9m. The number of detected frauds reported in the CFaCT this year was 6,584 with a loss value of £21.7m. This is to be expected with the transfer of housing benefit fraud investigation now completely transferred to the DWP. However, 50 councils still saw benefit fraud as the largest risk area to the authority since the financial loss of benefit fraud is still borne by councils once the investigation is complete.

## Housing and tenancy fraud

This category of fraud includes subletting, abandonment, housing application fraud, succession and right to buy fraud. There are three key points:

- In some areas of the country there is greater demand for housing and this increases the prevalence of fraud. Thus London boroughs identified housing fraud as their highest fraud risk. Some inner London boroughs face a greater risk than boroughs in the suburbs. The housing application process and proactive exercises such as tenancy audits help mitigate fraud risk.
- The value of right to buy fraud is higher in London than it is in other parts of the UK due to the overall cost of housing.
- There is a large variance in the values attributed to losses in the housing sector recorded within the survey. While any loss figure attached to council property is notional and does not have a tangible cash value, there is clearly a value in this type of investigation.

According to the survey, councils record the income lost to housing fraud according to different values. They ranged from being equal to a notional cost of replacing a property to the average cost for keeping a family in bed and breakfast accommodation for a year. Other councils recorded a loss based on the premise that each illegal sublet continues for a period of three years and simply multiplied an annual figure by three.

With regard to placing a value on the right to buy fraud cases, most local authorities would claim a representative or notional saving of the value of the discount. This is a common sense approach, but does not represent the saving to the local authority with regard to the prevention of the sale. A right to buy fraud is not solely a fraud in regard to the application, but a fraud discovered as a *result* of the application. For example, a local authority tenant applies to purchase a property and it transpires they have been illegally subletting.

The Fighting Fraud and Corruption Locally Board has recommended that a working group should produce a standard methodology for measuring fraud and corruption within local authorities. This methodology would be used to estimate levels across the UK.

Some local authorities, with and without housing stock, undertook investigations in the areas of temporary accommodation and private sector leasing. Some also undertook investigations for other social housing providers (eg housing associations). Where investigations were undertaken, local authorities either charged the housing associations for the delivery of the investigation by way of an hourly rate or in return for the nomination rights in the event that a property is recovered.

During 2014/15 the highest number of housing and tenancy cases reported was in subletting, followed by a mixture of housing fraud types such as succession and abandonment. While registering the lowest number of cases in this category, right to buy was listed as an emerging risk by many local authorities. With the increase in publicity in this area and the substantial discounts available it is an attractive offer for the fraudster as well as the legitimate tenant. This is a potential area of risk for housing associations in the future as the right to buy scheme is rolled out.

## Housing fraud breakdown

	Volume of cases (est)	Value of cases (est)
Right to buy	1,394	£97.4m
Illegal sublet	1,825	£65.2m
Other*	2,604	£45.3m

\*Other includes tenancy frauds that are neither right to buy or illegal sublet, and may include succession and false applications.

**1,825:**  
the number of cases of subletting investigated during 2015/16

**£207.9m:**  
the estimated value loss from investigated housing fraud during 2015/16

### Case study – London Borough of Croydon

In 2015 the London Borough of Croydon worked with the United States Secret Service (USSS) to investigate an allegation against one of their tenants, Ms B. The allegation received through the local authority's online fraud referral service suggested that the tenant had been subletting their council house and had been living in the US for the last ten years.

The tenancy had been ongoing since 2003 when Ms B, registering as a lone parent with two children, submitted a housing benefit claim. Following the allegation Croydon's fraud team made enquiries and discovered that the children had not been registered for school or nursery in the borough, bar one short period. The current residents of the property included the woman's brother who admitted during interview that his sister lived in the US. The locks on the property were changed and although requests for the keys were made by the tenant's brother these requests were not complied with.

Utilising contacts developed at the Croydon Fraud and Enforcement Forum the local authority was able to contact the USSS and following the enquiry they confirmed that Ms B was living in the US at the address provided in the original referral.

Evidence from the USSS was offered to the court and on 16 December 2015 the order for possession was made with immediate effect.

### Disabled parking (Blue Badge)

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered. In 2014/15 the number of cases reported was 2,545 and the value attributed to this loss by local authorities was £1.0m. The figure has increased to 4,723 in 2015/16.

The value attributed to disabled parking by most authorities is a notional one, since in most cases it is impossible to calculate the actual loss. As with other types of fraud, local authorities calculate the value in different ways and for some authorities the value of parking is greater than others. Value is attributed based on the parking charges within an authority but there is no direct financial recovery to be made from the identification of a Blue Badge fraud. In the event that a Blue Badge misuse is identified it is often prosecuted and the individual fined (which is paid to the court). The prosecuting authority is also awarded costs, however, these costs often do not meet the full cost of the investigation and prosecution.

Some local authorities invest more counter fraud resource in the investigation of disabled parking abuse than others, and not all councils attribute a value to the fraud or misuse. Some councils do not use investigators to look into allegations of Blue Badge fraud and 38 authorities recorded no cases of fraud in this category.

The misuse of Blue Badge is not a high value loss to most local authorities and in most cases there is no recovery to be made. However, the misuse of disabled parking can cause difficulties to disabled users who need the spaces and there is therefore value in the investigation.

### Debt

Debt fraud includes fraudulently avoiding a payment of a debit to an organisation, excluding council tax discount. There were 975 cases investigated, however they represent a small portion of financial loss at £0.2m.

**4,723:**  
the number of disabled parking cases  
in 2015/16

London boroughs identified housing  
fraud as their highest fraud risk

## Other types of fraud

This section outlines some potentially high fraud risk areas. These risks are higher in some geographic locations and some organisations than others.

### Social care and no recourse to public funds

Social care and welfare assistance was one of the highest types of 'other frauds' reported. In 2014/15, 287 cases of detected fraud in social care were reported and welfare assistance totalled 104 cases. Welfare assistance fraud was identified as one of the top three risks that local authorities were facing. This year CIPFA split the welfare assistance category to include adult social care, child social care and 'no recourse to public funds' (whereby someone can have permission to live in the UK but not to claim benefits, tax credits or housing assistance). Respondents reported that 234 cases of 'no recourse to public funds' had been investigated. There were 506 cases within the other welfare categories with the largest number in adult social care (219).

While it looks like social care fraud has increased, this could be in part due to the increase in investigators.

While 'no recourse to public funds' fraud presents a significant fraud risk to local authorities, it is primarily to be found in London, southeast England and larger metropolitan boroughs.

Several local authorities who identified that 'no recourse to public funds' was a risk have undertaken pro-active anti-fraud exercises in this area, including visiting recipients of the funds and undertaking fraud awareness exercises with those responsible administering the scheme.

### Procurement fraud

This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or organisations

in the 'purchase to pay' or post contract procedure, including contract monitoring.

Procurement fraud often involves significant sums of money and is recognised as a considerable fraud risk across all public sector organisations.

There can be sizeable difficulties in measuring the value of procurement fraud since it is seldom the total value of the contract but an element of the contract involved. The value of the loss especially post award can be as hard to measure, but equally significant.

During 2014/15, 60 cases of identified procurement fraud were reported. In this year's survey the number of cases increased by five times to 353 cases. We have used this figure to estimate that there could be as many as 613 cases totalling £6.2m across the UK annually.

CIPFA recommends that public bodies continue to raise fraud awareness in the procurement process, not only in the tendering process but also in the contract monitoring element. This area can be particularly difficult to enforce especially where there have been efficiency savings made in the area of contract monitoring.

### Insurance claims

In 2014/15, CIPFA estimated the number of detected cases was 237 across the UK. This year the figure has risen to 312 cases and the average loss value is £13,000. CIPFA would recommend that organisations ensure that anti-fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigations into alleged frauds to be undertaken.

**353:**  
the number of procurement fraud cases reported in 2015/16 – five times more than the previous year.

**£13,000:**  
the average loss value to an insurance fraud case

### Economic and voluntary sector (grant fraud)

Frauds in this area relate to the false application or payment of grants or financial support to any person and any type of agency or organisation. There were 28 reported cases in 2014/15 but this increased by a third in 2015/16 to 37. We estimate that nationally 61 cases were detected with a potential loss of £1.5m. Four organisations noted that grant fraud was an area of high risk, including a police authority and a passenger executive, which may suggest that this is an area that requires more focus.

#### Grant fraud is defined by Action Fraud as:

*“Fraud relating to public funding and grants happens when individuals, organisations (including businesses and charities) or organised criminal groups claim public funding or grants that they are not eligible for. Fraudulent claims could be made to a number of public organisations for example local authorities, the Lottery Commission, European Union and the Student Loans Company.”<sup>1</sup>*

#### The fraud falls into two broad categories including:

**Insider fraud** – related to the identification of the needs of the deliverable, the specification of the project and the monitoring of the project, this can be the result of a lack of declarations of interest.

**Delivery fraud** – the organisation delivering the work claims to have delivered outcomes or services that it has not. This can be caused by poor governance arrangements in the organisation and/or a lack of monitoring on behalf of the awarding authority. This can be exacerbated by restrictions with regard to rights of audit of the grant funding organisation.

It is often difficult to measure outcomes in relation to the work of grant funded organisations. A high volume of low value grants can exaggerate the risk because it is simply not proportionate to undertake monitoring at a level that might find fraud.

Mazars LLP investigated an organisation on behalf of a grant awarding client. The organisation had received a grant to run a community event with public performances and a contract had been agreed.

Investigations undertaken by Mazars found that the organisation had posted video footage of previous events on YouTube as part of its proof of delivery. In addition, the organisation supplied bank statements, invoices and a licence allowing public performances. The investigation found that all the documents supplied had

been fabricated, including bank statements, invoices and a licence allowing public performances.

### Manipulation of data (financial or non-financial)

The most common frauds within the manipulation of data relate to employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation, it also includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend. We estimate, based on the figures supplied to us, that across the UK there have been 24 cases of this type of fraud. However, it can be the case that this type of fraud does not receive the attention it requires for two reasons:

1. it is difficult to attach a value to data therefore it is hard for public bodies to report a success; of the eight cases that were reported in the CFaCT none had a value attached to it
2. there can be a reputational risk to the organisation, as a result some organisations can be less keen to investigate or report investigations in this area.

### Pensions and investments funds pensions fraud

This includes all fraud relating to pension payments, including but not limited to failure to declare changes of circumstances, false documentation, or continued payment acceptance after the death of a pensioner. The estimated national value was £0.6m; no cases involved employees or councillors.

### Investments fraud

There was only one case of investment fraud reported this year, but it was valued at over £208,000. There were 11 reported in 2014/15. We are not aware of any significant changes during the year that would have had this effect.

### Payroll

This includes inputting ‘ghost employees’ and manipulating payroll data. The number of cases detected in 2014/15 was 137, and this has dropped marginally to 122 in 2015/16. We have estimated that 163 cases of fraud were detected across the UK during 2015/16 representing a loss value of £300,000.

### Expenses fraud

Respondents reported 35 cases, which is a drop from 56 in 2014/15. Based on this information we estimate a value loss of £500,000 across the UK for expenses fraud.

Non-council public authorities completing the survey identified expenses fraud as one of their top risks.

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<sup>1</sup> [www.actionfraud.police.uk/types\\_of\\_fraud](http://www.actionfraud.police.uk/types_of_fraud). Action Fraud is a national fraud hotline run by the City of London Police

### Recruitment fraud

This includes false CVs, job histories, qualifications, references or referees. The number of cases detected in 2014/15 was 80. In 2015/16 CIPFA estimates the number of recruitment fraud cases across the UK to be 143, with an estimated loss value of £0.7m. As mentioned with regard to other types of fraud it can be very difficult to measure the cost of recruitment fraud. It would carry implications including reputational damage, the costs of further recruitment and investigations into the motives behind the fraud.

### Business rates

Fraud in the area of business rates appeared as an emerging risk in the 2014/15 report. This year 29 local authorities considered this type of fraud to be a high risk. We have estimated that there could be £8.2m of fraud across the UK in the area of business rates.

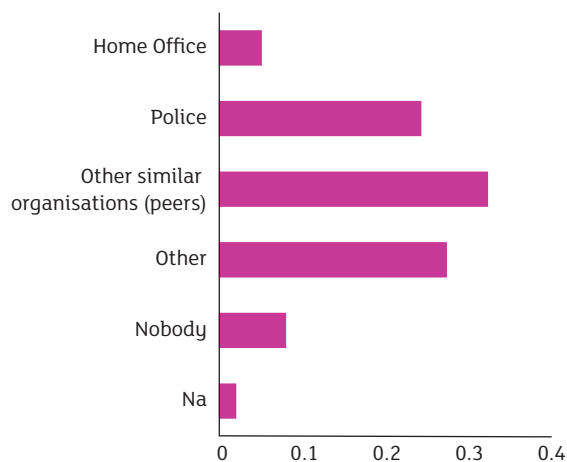
### Serious and organised crime

It is important that the public sector understands the nature and scale of fraud and corruption if it is to put forward its best defence. In a time when fraud and corruption threats are sophisticated and organised criminals are becoming ever more resilient, it is crucial that the public sector understands the full extent of the threat and sees patterns and future issues. As part of this survey the Home Office requested CIPFA's help in establishing the true picture of serious and organised fraud across the UK.

Working jointly is an area recognised both by survey respondents and the Home Office as being important in order to combat serious and organised fraud. The chart 'who do you work jointly with?' shows that most survey respondents do work together with other organisations. Those that do not should consider whether there is scope within their anti-fraud arrangements to do so.

**"Organised fraud often cross local authority boundaries and investigations tend to be complex, requiring the deployment of specialist resources, such as computer forensics or surveillance capability. Such resources are expensive and expertise needs to be constantly used to maintain effectiveness)." FFCL, 2016**

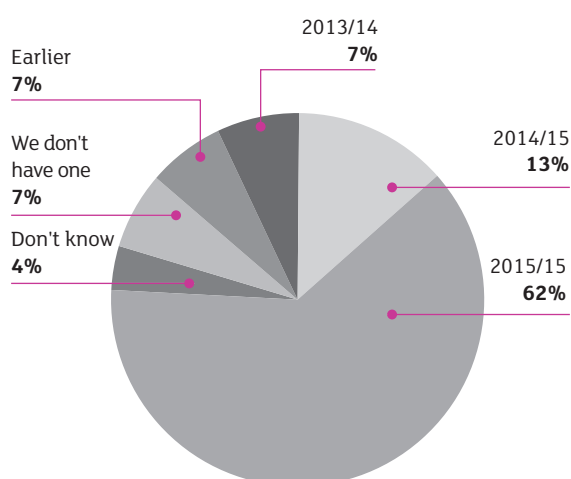
#### Who do you work jointly with?



In addition we asked whether organisations shared data and found that over 85% did share data both internally and externally.

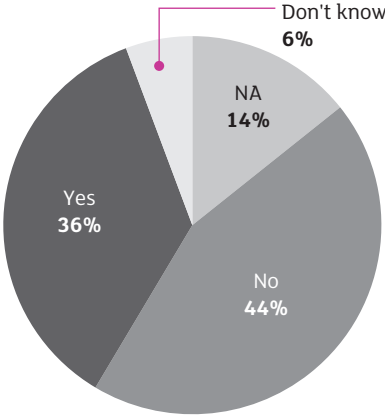
We asked organisations when they last had their counter fraud and corruption plan approved by their organisations, most responded that it was within the last year, although 11% of organisations either did not know or did not have a counter fraud and corruption plan approved. CIPFA recommends that all organisations have a counter fraud and corruption plan approved by the organisation annually.

#### When did you last have your counter fraud and corruption plan approved by your organisation?



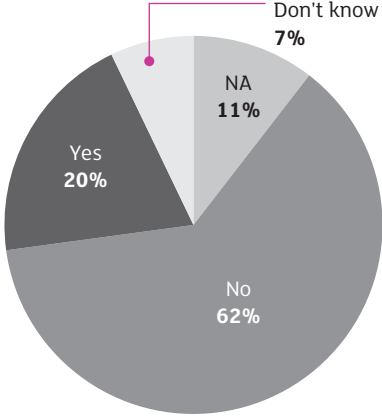
We asked respondents to tell us whether their counter fraud and corruption plans include serious and organised crime risks. While 44% do not include this risk in their plans, 36% do cover it and 20% were unable to say.

**Does your counter fraud and corruption plan include serious and organised crime risks?**



In addition, we asked if organisations had considered serious and organised crime in their risk register. We found that most had not, with only 20% confident of their inclusion.

**Are serious and organised crime risks identified in your organisation's risk register?**



**85%:**  
percentage of respondents that share data both internally and externally

### Collaborative working – the London Boroughs of Tower Hamlets and Redbridge approach

The corporate anti-fraud teams at the London Borough of Tower Hamlets and London Borough of Redbridge worked with the police and the DWP to investigate a serious and organised fraud that involved a claim for housing benefit and tax credit totalling £1.6m.

Redbridge lead on a prosecution that resulted in three ringleaders of an organised crime unit receiving combined jail sentences of over 12 years for facilitating false applications for benefits and providing false documents allowing benefits to be claimed. The investigations involved extensive research that uncovered fictitious pay slips and fake employment documents by unscrupulous or fake employers.

This examination identified links to claims being paid by both London boroughs who then worked in collaboration to produce information for the police and the DWP's National Fraud lead. The process identified unusual behaviours including the speed at which applicants were able to provide full documentation after only a few days of arriving in UK. The anti-fraud teams undertook a systematic examination of each aspect of the claim including:

- Home Office verification
- school attendance records
- contacting letting agents
- checking council tax payments
- Companies House
- business rates
- trading standards.

Bringing together both local and central government investigators and service delivery meant the results were effectively managed.

The impacts of a collaborative approach are:

- shared investigation costs
- use of other organisations' intelligence
- ability to bring the facilitators to court, not just the applicants who played a small part in the fraud
- the identification of the total loss to the public purse and therefore an appropriate level of asset recovery
- totality of sentencing.



## Whistleblowing

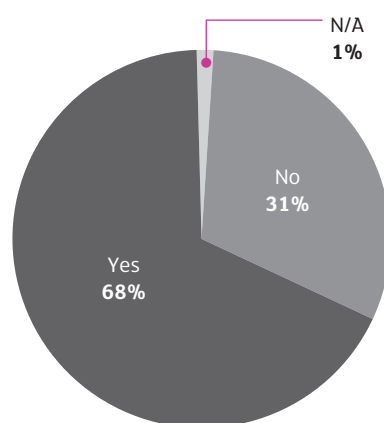
Whistleblowing is the popular term used when someone who works in or for an organisation raises a concern about a possible fraud, crime, danger or other serious risk that could threaten customers, colleagues, shareholders, the public or the organisation's own reputation.

All organisations told us they have a whistleblowing policy and just over half reviewed this policy on an annual basis (see chart).

CFaCT respondents reported a total of 505 whistleblowing cases, made in line with *PAS 1998:2008 Whistleblowing Arrangements Code of Practice* (PAS 1998:2008)<sup>2</sup>. This represents disclosures in all areas, not just in regard to suspected fraudulent behaviours.

As an early warning system, whistleblowing arrangements can help alert organisations to various elements of risk that could threaten customers, colleagues, shareholders, the public or the organisation's own reputation. Organisations should therefore ensure that whistleblowing processes are reviewed regularly in accordance with PAS 1998:2008.

**Do those responsible for governance annually review your whistleblowing arrangements in line with PAS 1998:2008?**



<sup>2</sup> [http://wbhelpline.org.uk/wp-content/uploads/2012/07/PAS1998\\_Whistleblowing1.pdf](http://wbhelpline.org.uk/wp-content/uploads/2012/07/PAS1998_Whistleblowing1.pdf)

## Counter fraud and corruption resources

The landscape of fraud for the public sector has changed significantly over the last year with leaner operations, and for local authorities the introduction of the DWP's SFIS has seen a workload shift. Our survey asked a number of questions about those involved in countering fraud.

Responses to the survey showed:

- 44 organisations have no dedicated counter fraud resource or consider it not applicable
- the number of FTE investigation staff has increased year on year since 2013/14 and organisations are planning for a further increase in the number of investigation staff
- the number of planned non-benefit investigators during 2014/15 has been exceeded. This may show that some organisations have realised the value of investing resources in this area.

While it is not essential for all organisations to have a dedicated counter fraud function, CIPFA suggests it

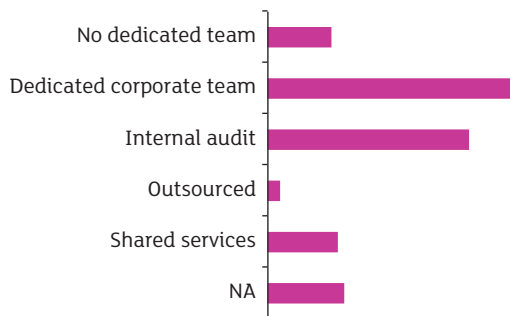
is important that organisations have a fraud response plan that enables allegations of fraud to be investigated effectively by skilled and professional investigators.<sup>3</sup>

We asked respondents to the survey about the type of counter fraud and corruption resources they had access to and found that there was a variety of responses. Each organisation must make its own decision on the level and type of resource required in order to carry out its duties with regard to countering fraud, however CIPFA feels is essential that those involved in the counter fraud function are professionally qualified.

<sup>3</sup> See the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption [www.cipfa.org/services/counter-fraud-centre/code-of-practice](http://www.cipfa.org/services/counter-fraud-centre/code-of-practice)

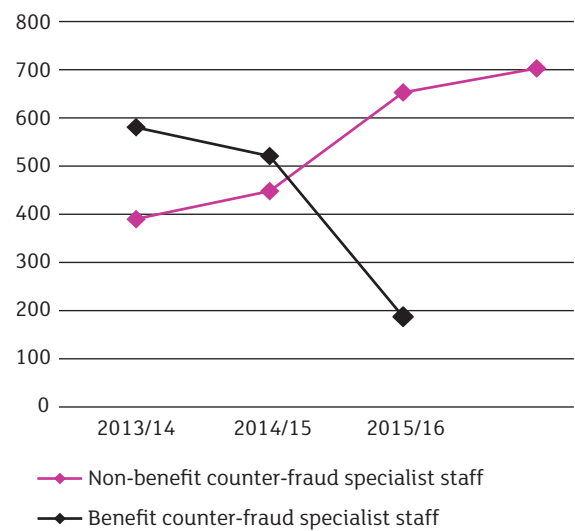


### Description of counter fraud and corruption resource?



The chart on the right shows that the number of counter fraud staff has increased over the last three years and that the level of resource will continue to increase during the year ahead. It is likely that those organisations who completed the survey are those with a strong commitment to anti-fraud and are therefore those more likely to be investing in that area.

### Counter fraud staff in the public sector (FTE) at 31 March each year



### Case study – Manchester City Council

Care packages and other associated welfare related benefits can involve high value payments over the course of a year. A social worker became suspicious that an individual in receipt of support funding had overstated their level of need. A subsequent investigation by counter fraud specialists from the council and the DWP identified a number of irregularities resulting in overpayments in excess of £100,000. The suspect no longer receives personal budget funding or disability living allowance and the case has been referred to the Crown Prosecution Service.

Originally produced in the Fighting Fraud and Corruption Locally Strategy

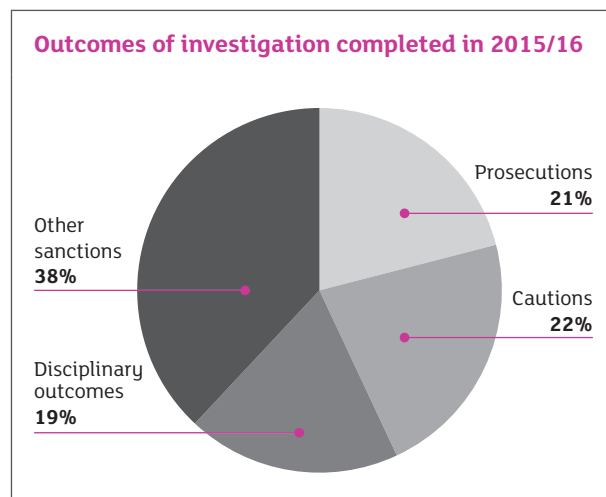
## Sanctions

In the 2014/15 survey report we recorded the number of prosecutions undertaken by different authorities such as the Crown Prosecution Service (CPS) or in-house teams. This year we examined the number of outcomes recorded by organisations.

In the chart:

- prosecutions include both in-house and CPS prosecutions
- cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to prosecute in that instance
- disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team disciplinary action is undertaken, or where a subject resigns during the disciplinary process
- other sanctions include the imposition of fines or other penalties by the organisation.

The chart gives details of outcomes excluding housing benefit fraud, and shows that where fraud is found a wide range of disposals are considered.



## Fighting Fraud and Corruption Locally

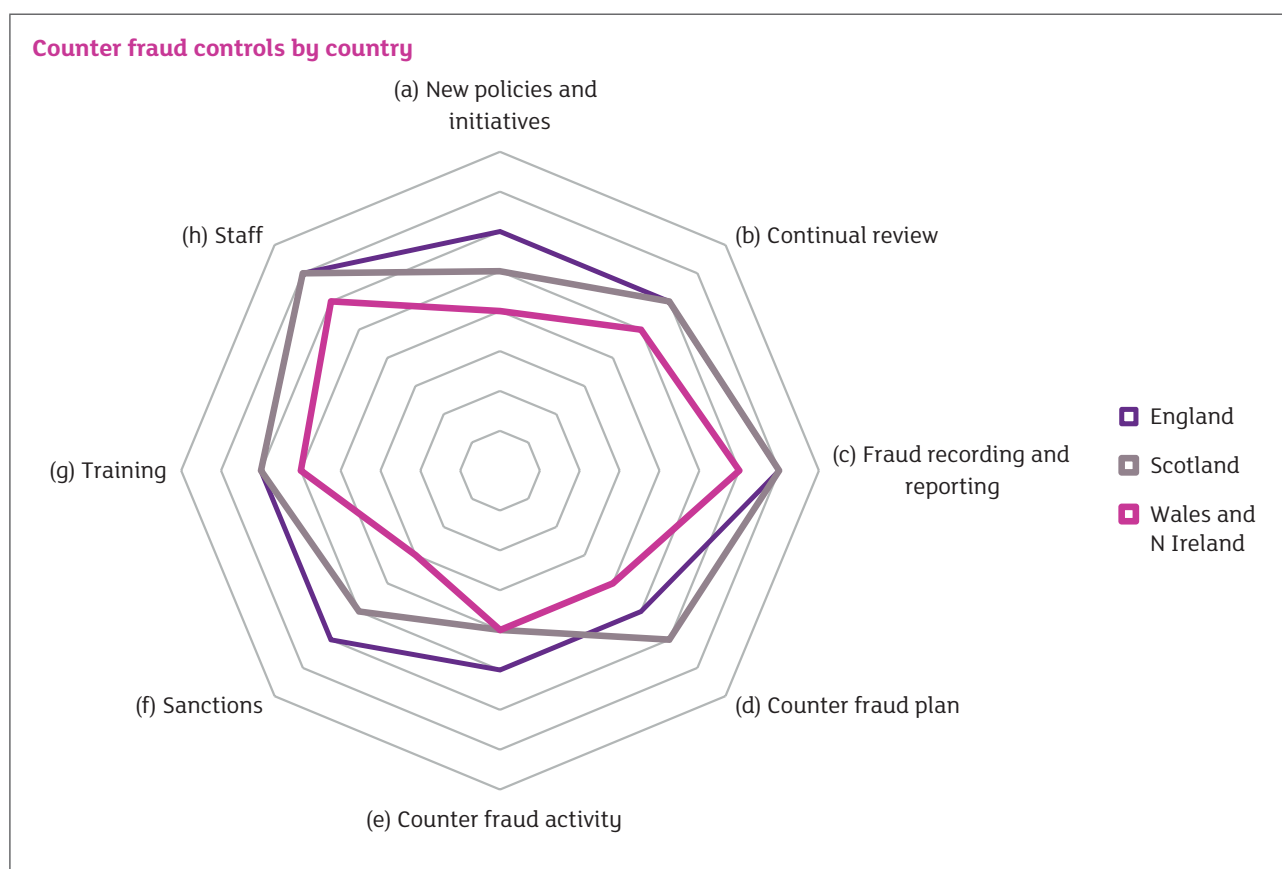
The production and implementation of the *Fighting Fraud and Corruption Locally (FFCL) strategy* is overseen by the FFCL Board, which includes representation from key stakeholders. The *FFCL strategy 2016–2019* was developed by local authorities and counter fraud experts and is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.

The CIPFA Counter Fraud Centre drafted the strategy on behalf of the FFCL board. Development of the strategy is informed, in part, by the response to the CFaCT survey, which asks specific questions with regard to the way fraud is dealt with within organisations.

The chart below shows the responses to these questions by country. There was a small sample return from Scotland and all responses given are based on each organisation's own self-assessment of their position.

We would note that those who have completed the survey are likely to be those who have invested in their counter fraud functions and are currently delivering services in this area. The response may be different among those organisations who did not complete the survey.



## Emerging areas

Last year we asked respondents to tell us where they saw emerging risk areas. Respondents included procurement, organisational change, personal budgets and cyber fraud as areas of potential concern.

We did not ask a question specifically about emerging trends in the 2015/16 CFaCT survey. However, there were some areas that organisations felt were of growing concern. Procurement was seen as an emerging trend in 2014/15 and we saw an increase in cases from 60 to 353 over the year. Within the survey right to buy fraud cases have increased by over 50%. Given the continued discount and the lack of affordable housing this could create conditions that encourage fraud. This could be a particular issue in London where the cost of housing is higher than in other parts of the UK.

Fraud in the area of business rates appeared as an emerging risk in the 2014/15 report. This year 29 local authorities considered this type of fraud to be a high risk.

Personal budgets and direct payments were covered by adult social care and children's social care this year.

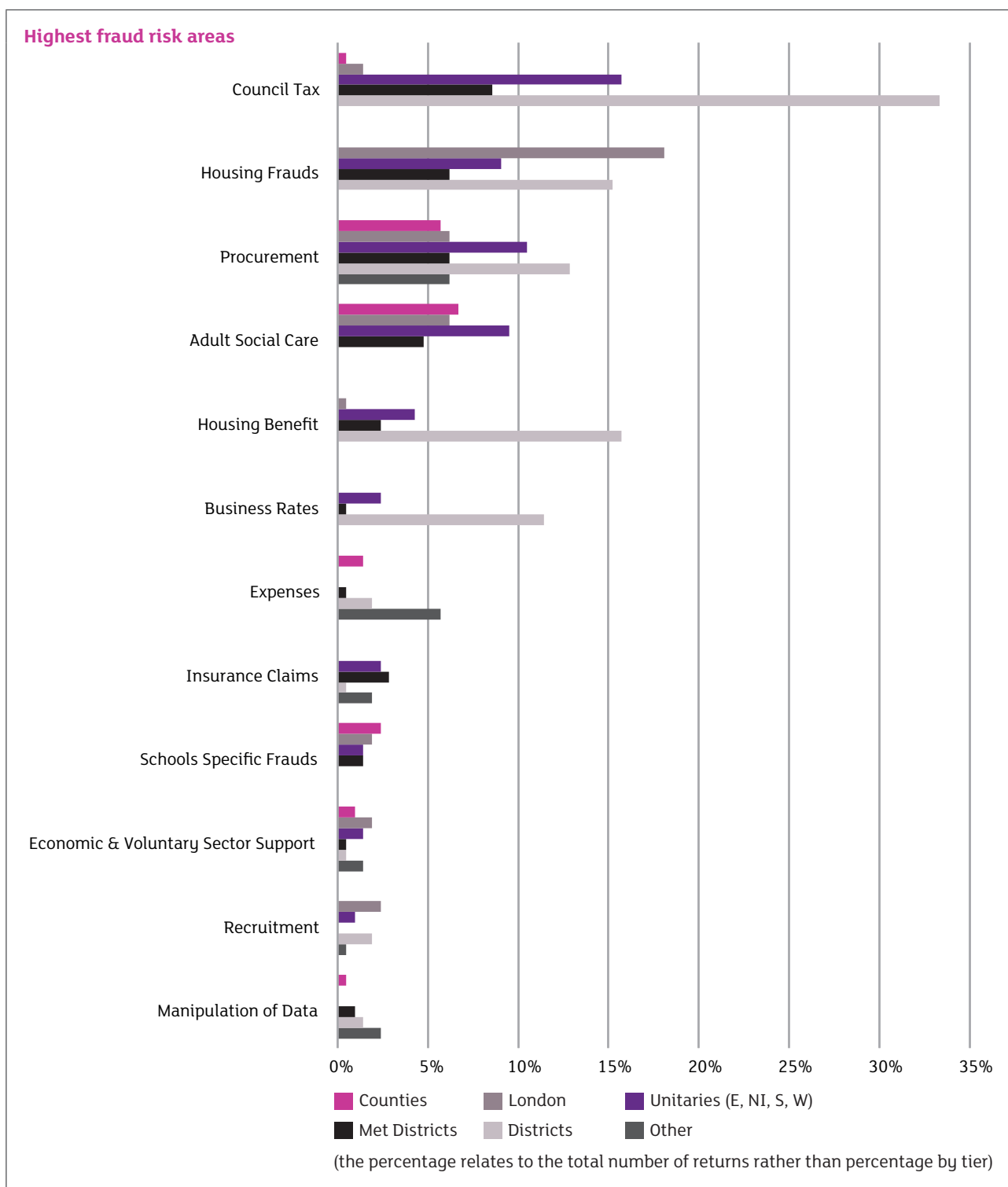
In 2014/15 there were 287 cases reported, which has decreased to 215 in 2015/16. It is clear from responses that the fraud risk in social care is not diminishing, however better controls in some aspects may be having an effect.

### Highest fraud risk

This year at the request of the Home Office we asked respondents to identify the highest risks to their organisation. Respondents told us their highest risks were:

- council tax
- housing
- procurement
- adult social care and housing benefit.

Answers varied significantly by organisation and a more detailed response can be seen in the chart overleaf.



### What do you perceive as the three highest fraud risks areas for your organisation?

We asked respondents to tell us what they perceived as the three most significant areas that need to be addressed to effectively tackle the risk of fraud and corruption in their organisation.

As with the 2014/15 survey, the biggest issues in countering fraud remain the same:

- having the capacity to identify fraud risk and investigate allegations
- having effective fraud risk assessment and management
- barriers to data sharing.

## Financial investigation

Financial investigators are those professionally accredited for the purpose of recovering assets in accordance with the Proceeds of Crime Act 2002 (POCA). Nearly half of respondents to the survey (44%) had no access to financial investigation resource, while 56% did have access.

Organisations told us that they have been awarded £27.5m by courts through POCA (excluding housing benefit/council tax benefit) over the last three years. Of this money, respondents told us that a total of £18.4m has been recovered.

The CFaCT found that some authorities have collected more during the year than has been awarded. This is because some older cases are now coming to fruition and that the complex nature of cases means recovery can be delayed. Unsurprisingly, people whose assets are being confiscated are often keen to protect them.

The National Audit Office (NAO) notes that “in practical terms only a very small proportion of criminal gains can ever be confiscated. This is because much crime is not reported, criminal gains are often disposed of quickly or transferred out of reach, and many criminals are determined to keep as much as they can regardless of the sanctions made against them. In practice, therefore, confiscating assets often requires law enforcement officers to show skill, determination and persistence.”<sup>4</sup>

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4 *Confiscation Orders: Progress Review* (NAO, 2016)

### Case study – London Borough of Newham

While investigating an issue with planning permission OneSource, on behalf of the London Borough of Newham, recovered an amount after taking the defendant to a confiscation hearing.

Mr C had requested planning permission to convert a retail office into a vehicle workshop, car sales and MOT testing centre and despite permission being refused he had gone ahead with the work. During the conversion process Mr C ignored an enforcement notice requiring him to stop and was therefore taken to court to appear at a confiscation hearing.

It was calculated that Mr C’s criminal benefit from the offence was over £196,000 and his available assets were calculated as £829,000. At the confiscation hearing the judge made the following order:

- £500 fine
- £50 victim surcharge
- £4,456 costs to be paid within 28 days, with 14 days’ imprisonment in default
- confiscation order made in the sum of £196,341.49 (based on the benefit figure).

The defendant was given six months to pay or face two and a half years in prison.

Recovery in cases like this is relatively easy as most defendants are commercial landlords and have property they can realise rather than face prison.

CIPFA would like to thank all the organisations that completed the survey along with those that helped by distributing the survey or contributing case studies, including:

- Charlie Adan, Babergh and Mid Suffolk District Councils
- Association of Local Authorities' Treasurer Societies
- Norma Atlay, North Hertfordshire District Council
- Nigel Aurelius, Torfaen County Borough Council
- Chris Buss, London Borough of Wandsworth
- County Chief Auditor Network
- Alan Finch, Local Government Association
- Alison Griffin, London Borough of Bexley
- Local Authority Financial Investigators Forum
- Local Government Association
- London Borough of Croydon
- London Borough of Tower Hamlets
- Margaret Lee, Essex County Council
- Mazars
- Graeme McDonald, Solace
- Ian O'Donnell, London Borough of Ealing
- Oldham Borough Council
- oneSource
- Brian Roberts, Leicestershire County Council
- Mike Suarez, Cheshire East Council
- Society of District Council Treasurers
- Society of London Treasurers
- Solace
- South West London Fraud Partnership
- Brian Taylor, Scottish Government
- Donald Toon, National Crime Agency
- Huw Vaughan Thomas, Wales Audit Office
- Chris West, Coventry City Council
- Duncan Whitfield, London Borough of Southwark
- Peter Turner, London Borough of Bromley

## Appendix 1

The table below lists the types of fraud reported in the survey, an extrapolated figure estimating the number of cases across the UK based on the cases reported in the survey and an estimate of the cost incurred in 2015/16. We also give an estimated value per case.

Types of fraud	Fraud cases	% of the total	Value £m	% of the total value	Average £'000
Council Tax	57,681	65.70	24.1	7.40	0.42
Housing Benefit	11,902	13.50	40.5	12.5	3.41
Disabled Parking Concession	6,578	7.50	3.0	0.90	0.45
Housing	5,823	6.60	207.9	64.1	35.71
Debt	1,053	1.20	0.2	0.10	0.23
Business Rates	706	0.80	8.2	2.50	11.55
Welfare Assistance	616	0.70	0.1	0.02	0.12
Procurement	613	0.70	6.2	1.92	10.19
Insurance Claim	382	0.43	5.3	1.62	13.76
Adult Social Care	323	0.37	2.9	0.90	9.09
No Recourse to Public Funds	251	0.29	8.7	2.67	34.51
Mandate	216	0.25	7.2	2.22	33.31
School	182	0.21	0.9	0.26	4.71
Payroll	163	0.19	0.3	0.10	1.98
Recruitment	143	0.16	0.7	0.23	5.21
Pensions	89	0.10	0.6	0.18	6.42
Economic and Voluntary Sector	61	0.07	1.5	0.47	25.10
Expenses	50	0.06	0.5	0.15	9.78
Children's Social Care	29	0.03	0.3	0.09	9.86
Manipulation of Data	24	0.03	na	na	na
Investments	1	0.00	0.2	0.07	221.00
Other	983	1.12	5.3	1.65	5.44
	<b>87,869</b>		<b>324.7</b>		



## Survey approach

CIPFA has applied care and diligence to create this picture of fraudulent activity across the UK's public sector.

CIPFA has grouped various fraud areas together rather than give a figure as a whole. For example, council tax includes single person discount and council tax reduction.

The 2016 CFaCT survey assessed all authorities on the themes in the *Fighting Fraud and Corruption Locally (FFCL) strategy*. This aims to help the public sector tackle fraud and corruption and ultimately prevent losses. The FFCL Board also put forward specific questions to be included in the survey to help measure the effectiveness of the initiatives in the strategy. The suggestions in this report, therefore, reflect, endorse and illustrate the long-term agreement between the FFCL Board and CIPFA. We hope that all respondents to the survey were challenged by these questions and have helped them consider where assessments of counter fraud activity would be best focused.

As recommended in the UK Anti-Corruption Plan, the CIPFA Counter Fraud Centre has developed close relationships with the National Crime Agency, the Home Office, and the City of London Police. The survey contains questions pertinent to informing future work in relation to joint working and serious and organised crime.

Due to the wide group of respondents CIPFA has not extrapolated the data, in particular in areas where there may be geographical bias. For example, 'no recourse to public funds' fraud had a high prevalence in the southern authority results returned, with a 97% return for London local authorities.

We have sought to encourage all organisations to complete this survey so that they can benefit from considering their own response to fraud risk, both financial and reputational. We recognise that it is easier for organisations who have a counter fraud function to complete the survey and that this may affect the results. It is important that organisations consider their fraud risk and we hope that this survey will help them in this regard and that they will contribute in future years.





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To subscribe to the CIPFA Counter Fraud Centre, which gives you access to the tools, alerts and resources needed to combat fraud in the public services, please complete the application form on our website.

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## Whistleblowing e-learning

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[www.cipfa.org/services/counter-fraud-centre/e-learning/bribery-and-corruption-elearning](http://www.cipfa.org/services/counter-fraud-centre/e-learning/bribery-and-corruption-elearning)



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