

AUDIT PANEL			
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) OVERVIEW		
Key Decision	NO		Item No. 10
Ward	ALL		
Contributors	Interim Head of Audit & Risk A-FACT Group Manager		
Class	Part 1	Date: 22 June 2011	

1. Purpose

- 1.1. This paper is for information only.
- 1.2. It has been prepared for the Audit Panel in response to recent discussions on the anti-fraud activities of the Council. It is in addition to the annual Anti-Fraud and Corruption Team (A-FACT) report.
- 1.3. The paper:
 - summarises priorities and planned improvements for A-FACT in 2011/12
 - presents the anti-fraud work of the Council in a wider context
 - assesses the focus and success of current A-FACT activities, and
 - considers resourcing needs and matching them to the right priorities.

2. Recommendation

- 2.1. It is recommended that the Audit Panel note this report for information

3. Executive Summary

- 3.1. Fraud is an important and significant challenge for the London Borough of Lewisham (LBL) estimated at £33m. The impact of frauds go well beyond the damage of the fraud itself causing loss of money, poorer services, diversion of time, injustice and reputation loss.
- 3.2. Priorities for continuous improvement, assuming core funding and income from grants and joint working can be maintained at the 2011/12 levels, are:
 - keep up the good work in housing and special investigations, supporting management identify and resolve issues where frauds are found
 - continue close joint working on cases with Internal Audit, Human Resources and Legal to maintain the Council's strong internal control arrangements
 - steady as it goes and manage the transition of housing benefit work to DWP
 - consolidate resources and strengthen the work of the special and housing investigations teams
 - refresh the corporate counter fraud strategy and policy to assess and focus on key risks to help support the prioritisation of cases to take on – e.g. contracts

- monitor 'success' rate to evidence effective risk assessment in picking the type and number of cases to investigate. The barometer, based on 2010/11 outcomes, is a one in four strike rate
- carve out some time from current commitments to also plan some targeted campaigns – for example around employment checks and data matching work
- improve the way in which we report and track control improvement recommendations arising from investigations
- with strategic housing, use the grant monies from CLG to tackle social housing fraud with Lewisham housing providers other than Lewisham Homes, and
- strengthen communications to promote the Council's message on counter fraud, both for management purposes and to raise awareness more generally.

4. Anti-fraud context

- 4.1. CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."
- 4.2. The anti-fraud work in the Council arises from the need for it to ensure confidence in the administration of public funds. As part of which, it must be recognised that the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself.
- 4.3. To put this risk in context, the level of fraud against the London Borough of Lewisham can be estimated at £33m. This £33m can be further split - £25m of external fraud and £8m of internal fraud. Or that within the Lewisham social housing stock 312 tenancies will be fraudulent. Details for these estimates are at Appendix A.

Fraud practitioners have identified three common factors when fraud occurs - the fraud triangle. The PwC 2010 report on fraud in the public sector identified the following distribution of reasons for identified frauds.

The consensus is that the contributory factors to fraud are likely to increase in the public sector as a result of the much tougher economic environment now faced. This is borne out in Lewisham through the rising A-FACT caseload.



- 4.4. For fraud to occur a number of organisational conditions will normally exist, for example:
 - Lack of effective internal controls
 - Failure of management information systems
 - Undocumented procedures, or
 - A weak anti-fraud culture and general laxity of attitude by management and employees towards security.
- 4.5. As such the anti-fraud work of the Council is much wider than the work of A-FACT. The Council's systems and procedures work to prevent and detect fraud. The role of

A-FACT is then to investigate and sanction against fraud using the powers available to the Council. The Acts for the conduct of investigations are listed in Appendix B.

- 4.6. A-FACT also supports Internal Audit in promoting a strong internal control environment with clear controls and procedures, manages a fraud hotline (important as the majority of referrals come from tip-offs), performs pre-employment checks for Human Resources, works with Legal to maintain the fraud and whistle blowing policies and reporting lines, and undertakes data matching, training and promotion of anti-fraud successes.
- 4.7. Internally the key areas of fraud risk, identified through the work of internal audit and A-FACT, give rise to the need for a clear corporate policy framework, documented operating models / business procedures and accompanying risk assessments, compliance arrangements to complement performance management, and monitoring of changes within the business that provide new pressures and fraud opportunities.
- 4.8. The areas of national fraud risk in local government assessed by the National Fraud Authority are set out in the table below.

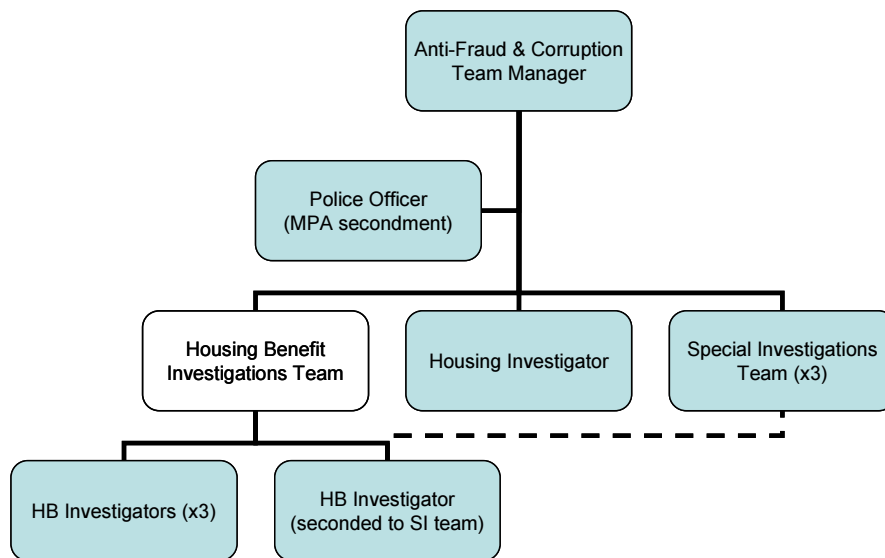
Area of Fraud	Fraud Type	Fraud Loss
Benefits	Benefit fraud	£1,000 million
Local Government	Housing tenancy fraud	£900 million
	Procurement fraud	£855 million
	Payroll and recruitment fraud	£152 million
	Council tax fraud	£90 million
	Blue badge scheme abuse	£46 million
	Grant fraud	£43 million
	Pension fraud	£8 million

- 4.9. In addition to the above fraud risks, the Audit Commission's latest report of the National Fraud Initiative findings – Protecting the Public Purse 2010 – also highlights the risks in personal budgets and council tax single person discounts.
- 4.10. The Communities and Local Government (CLG) Secretary published in May 2011 a list of the top ten tips for tackling local authority fraud - details in Appendix C.
- 4.11. The A-FACT team are supporting all of these with the emphasis in 2011/12 on improvement around measuring the exposure to fraud risk (starting with this paper), moving to pursuing a more preventative strategy (resources permitting), paying particular attention to highlighted risk areas such as procurement and grant awards. These priorities should also help improve compliance with the CIPFA national counter fraud standards (RED Book 2).
- 4.12. The interventions of A-FACT can be at one of three levels:
1. Investigate, provide management support and tidy up issues arising from fraud
 2. Targeted pro-active work around identified key risks; and
 3. General prevention campaigns to raise awareness of fraud and follow up work
- 4.13. Examples of level 2 work would include; data matching exercises, running training courses, undertaking pre-employment checks, and calling in all staff to evidence their identify matches their contract and employment history details (as we now do for all new staff).

- 4.14. Examples of level 3 work would include; undertake sweeps through the office in line with the Council's clear desk policy, produce a regular newsletter or articles on Lewisham News, and ensuring we promote and publicise successes.
- 4.15. In summary, while A-FACT does some examples of level 2 and 3 work, it is primarily working at level 1 at the moment. A-FACT work follows the Lewisham Counter Fraud policy that staff are referred to on induction and is routinely publicised around the Council along with the message of a zero tolerance approach to fraud.
- 4.16. More details of A-FACT's work is presented in the next section.

5. A-FACT work

- 5.1. A-FACT have an annual budget of £520,000. This is supplemented with an annual income of approximately £80,000 from Lewisham Homes under an annual service level agreement to support them with their counter fraud work.
- 5.2. The 2011/12 service plan priority for A-FACT is to - *Manage the risk of fraud and corruption against the Council.*
- 5.3. The key areas of action for A-FACT to deliver on this priority are:
 - A-FACT strategy and priorities refreshed and aligned to assurance framework
 - Compliance with the law and regulatory requirements of DWP, Audit Commission
 - Share expertise with partners to develop alternative revenue streams, and
 - Professional innovation and good practice demonstrated.
- 5.4. The A-FACT resources and organisation, following implementation of the agreed year one phase 1 & 2 savings, is set out below



- 5.5. The three main areas of work and annual caseload volumes for 2010/11 are:
 - Housing Benefit Investigations – 626 cases completed and £850,000 of overpayments identified
 - Housing Investigations – 47 cases completed
 - Special Investigations – 213 cases completed plus 279 pre-employment checks

- 5.6. More details of the types of cases in each area and examples of the more notable outcomes are presented in the quarterly report to the Audit Panel)
- 5.7. For each area of A-FACT work – see landscape below - some of the typical costs and benefits are set out by area of A-FACT work. Globally (per Association of Certified Fraud Examiners) the overall level of fraud in any organisation is between three and five percent. However, it is very hard to quantify in cash terms the value of fraud investigation and prevention work on a case by case basis. The exception is Housing Benefits work where recovering money obtained by deception is the focus.
- 5.8. On a case by case basis, the cash cost of investigations will nearly always be more than the funds recovered. The benefits of counter fraud work are more intangible.
- 5.9. The landscape for counter fraud risk in Lewisham is therefore:

Housing Benefit Investigations

- Housing Benefit fraud
- Council Tax fraud

Housing Investigations

- Housing tenancy fraud
- Housing application fraud

All teams

- Training
- Intelligence exchange / joint working
- Communications

Special Investigations

- Procurement and contracts fraud
- Payroll and recruitment fraud
- Theft of assets and resources
- Abuse of access and systems
- Misuse of grants
- Concessions (e.g. Blue Badge)
- Direct payments / Personal budgets
- Cheque and bank account fraud
- Proceeds of crime work
- Pre-employment checks
- Pensions fraud
- Money laundering

Housing Benefit Investigations

- 5.10. The annual cost of the team, management time and resources to undertake this work is currently in the region of £250,000. Lewisham's Customer Directorate administer around 34,000 people on housing benefit and 50,000 claiming single person discount. In addition there are costs associated with those cases that are taken to court – both for Lewisham in terms of legal team support and the cost to the wider justice system.
- 5.11. From the referrals to A-FACT and those cases identified through the National Fraud Initiative (NFI) data matching process in 2011/12, the team achieved 181 sanctions (including 20 prosecutions) from 626 completed cases. This work identified £850,000 of benefit overpayments. Of these overpayments only those that incur an administrative penalty bring any money directly into the Council. For 2011/12 the level of administrative penalties was £33,000, some but not all of which will eventually be collected.
- 5.12. Working with the NFI data matches and the Special Investigations team, A-FACT have recently sifted a sample via Equifax and assessed cases of staff claiming Single Person Discount (SPD). This has resulted in more than 20 claims being corrected with an annual value of £330 x 20 = £6,600. This covers the external data matching costs of doing the exercise. As a result A-FACT is also now supporting a wider piece of work commissioned by the Customer Services Directorate to review the remainder of the 50,000 population.

- 5.13. The current Housing Benefit work is subject to the new central government policy creating a single national fraud investigation service within the Department for Work and Pensions (DWP) from April 2013. The exact terms under which this change will happen have yet to be communicated by DWP. In part, we believe, pending the conclusion of the current consultation on TUPE. While there will inevitably be some loss of knowledge and exchange of case history when this team transfers to DWP, it remains that this is a relatively discrete area of work.

Housing Investigations

- 5.14. The annual cost of the team, management time and income from Lewisham Homes to undertake this work is in the region of £150,000. The focus of this work is on preventing false homelessness applications getting through the net and correcting any cases that do slip through. The Lewisham Homes work is in part about pursuing housing tenancy cases but in 2010/11 also involved a significant number of investigations into staff activities, resourced by the Special Investigations team.
- 5.15. In respect of referrals regarding Lewisham's homelessness responsibilities the team completed 47 cases, identifying 16 with irregularities. In the two cases where tenancies were recovered an estimate of the cash saving to the Council is in the region of £7,000 per tenancy. This is estimated on the difference between annual social housing rent (£4,000) and short term homeless accommodation (£14,000) less the cost of returning a reclaimed property/VOID to circulation (£3,000). However, for both these cases and the other rejected false homelessness applications by far the larger benefit is in having done the right thing by those most vulnerable and in need in Lewisham.
- 5.16. Working with the strategic housing team in the Customer Services Directorate, A-FACT is also exploring the opportunity to resource work to tackle social housing fraud in the Lewisham housing stock managed by providers other than Lewisham Homes. This will be based on grants of £100,000 per year for two years from CLG designated for this purpose. The National Fraud Authority estimate just over 1 in a 100 tenancies is fraudulent. Assuming Lewisham has the same profile as the national average, for non Lewisham Homes housing stock in Lewisham this represents about 170 cases.

Special Investigations

- 5.17. The annual cost of the team, management time and resources to undertake a wide variety of work is in the region of £200,000. This includes the cost of the seconded Police Officer but not the support to Lewisham Homes on non-housing matters (see Housing above). At present, due to resource constraints, all the team's work is focused on responding to referrals as they arise. Apart from a limited amount of training, the team's workload is completing the investigations of more serious cases as discussed with each of the Executive Directors.
- 5.18. The team completed 213 investigations in 2010/11 and 279 pre-employment checks. As noted in the accompanying update these included twenty cases where employees were found in breach of their employment contracts with Lewisham. The support of the Human Resources (HR) team is critical in these employment cases. While there is no cash benefit, taking action does provide confidence to teams where working closely together and being able to trust colleagues is an important part of public service.
- 5.19. It is worth noting that these investigations take from a couple of weeks up to two years to complete and vary significantly in the time invested to support managers deal with the issues arising where fraud or a breach of the employment contract has been committed. Those that take the longest are most often the cases that are being taken to court. This requires a significant amount of detailed evidence gathering, often from

third parties, and, as with Housing Benefits, draws in the need for the time and cost of support from Lewisham's legal team.

5.20. A-FACT completed a self-assessment against the Audit Commission's 2010 Protecting the Public Purse checklist. In most cases A-FACT is already following good practice.

5.21. The key areas noted where performance could be improved were:

- refresh of counter fraud strategy and policy
- prioritise Council Tax SPD (see Housing above) for 2011
- focus on procurement and contract fraud, and
- monitor expenditure through personal budgets.

5.22. The Special Investigation cases often identify weaknesses in the design, or more commonly, the application of Lewisham's internal controls by individuals. Where this is the case on conclusion of their report A-FACT pass their recommendations onto Internal Audit. Internal Audit then conduct a more general audit of the system, not targeted at individuals, to help identify and make recommendations for improvements to strengthen the Council's overall internal control arrangements.

6. A-FACT resources targeted effectively.

6.1. Looking to the identified fraud landscape above, A-FACT are working in most areas to a greater or lesser extent. A self assessment of the current position is

Area of Investigations	Fraud risk	Addressing now (RAG)	Priority for 2011/12
Housing Benefit	Housing Benefit fraud	Green	As in prior year
	Council Tax fraud	Amber	As in prior year
Housing	Housing tenancy fraud	Amber	Yes
	Housing application fraud	Green	As in prior year
Special Investigations	Procurement and contracts fraud	Red	Yes
	Payroll and recruitment fraud	Amber	As in prior year
	Theft of assets and resources	Green	As in prior year
	Abuse of access and systems	Green	As in prior year
	Misuse of grants	Amber	As in prior year
	Concessions (e.g. Blue Badge)	Green	As in prior year
	Personal budgets	Amber	Yes
	Cheque and bank account fraud	Green	No
	Proceeds of crime work	Amber	As in prior year
	Pre-employment checks	Green	As in prior year
	Pensions fraud	Green	No
Money laundering	Green	No	
All teams	Training	Amber	Yes
	Info. exchange / joint working	Amber	As in prior year
	Communications	Amber	Yes

- 6.2. In terms of resource to deliver the 2011/12 priorities identified above
- The level of A-FACT resource is appropriate for Housing Benefit investigations. Not least as responsibility for this work is being prepared for transition to DWP and is therefore not an investment priority for Lewisham
 - The permanent level of A-FACT resource for Lewisham Housing investigations is appropriate. However, working with strategic housing, while we have access to additional CLG funding to tackle social housing fraud we may employ an additional person on a fixed contract to extend our reach and undertake more work with partners in this area to tackle tenancy fraud.
 - The level of A-FACT resource in Special Investigations is at or just below the minimum level to maintain a reasonable capability to address the wide range of issues that arise. This allows the team to select only priority cases and only those that are referred where trouble has already been spotted, level 1. As noted above for the work of All teams, on which Special Investigations would lead, with current resources it will not be possible to do a significant amount of level 2 or 3 work.
- 6.3. As has been noted, with the exception of Housing Benefit work, it is very hard to quantify the cost v benefit of undertaking the level of counter fraud work A-FACT do. However, it can be said that the volume of referrals keep coming in and the teams 'success' rates in finding fraud or bad practice continues at roughly one in four of the cases taken on. This would suggest that while A-FACT have a finger in the dyke and are holding back the flood they are not pushing the level of fraud down or out from the organisation.
- 6.4. To go further and fully meet the CLG Secretaries top ten tips (see Appendix C) would require more resource and a favourable wind to ease the fraud risk pressures which are heightened from the constraints of the current public sector economic climate.

7. Legal Implications

- 7.1. There are no legal implications arising directly from this report.

8. Financial Implications

- 8.1. There are no financial implications arising directly from this report.

9. Equalities Implication

- 9.1. There are no specific equalities implications arising directly from this report.

10. Crime and Disorder Implications

- 10.1. There are no crime or disorder implications arising directly from this report

11. Environmental Implications

- 11.1. There are no specific environmental implications arising directly from this report.

12. Background Papers

12.1. There are no background papers reported.

If there are any queries on this report, please contact

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Carol Owen at carol.owen@lewisham.gov.uk or on 020 8314 7909

Appendix A – Anti-fraud facts and figures

	<u>Value</u>	<u>Source</u>
1. Annual UK Public Sector spend	£700 billion	ONS 2010
2. UK Public Sector fraud estimate	£21 billion	NFA 2011
3. LB Lewisham total spend including	£1,100 million	LBL 2010
4. Housing benefits	£211 million	LBL 2010
5. HRA (Social Housing)	£93 million	LBL 2010
6. Operations	£270 million	LBL 2010
7. Social Housing stock in England	4.9 million	CLG 2009
8. Housing tenancy frauds	50,000	NFA 2011
9. LB Lewisham Social Housing stock	30,600	LBL 2010
10. A-FACT gross expenditure budget broadly allocated	£600,000	LBL 2011/12
11. A-FACT Benefit investigations	£250,000	LBL 2011/12
12. A-FACT (LBL and LH) Housing investigations	£150,000	LBL 2011/12
13. A-FACT Special investigations	£200,000	LBL 2011/12
14. Estimate of fraud in any organisation	3-5%	NFA and ACFE
Estimate of annual fraud in Lewisham split	£33 million	= (3 / 1) x 2
external fraud estimate in Lewisham	£25 million	= ((3-6) / 1) x 2
internal fraud estimate in Lewisham	£8 million	= (6 / 1) x 2
Estimate of fraudulent Housing tenancies in Lewisham	312	= (8 / 7) x 9
Taking 3% lower estimate of level of fraud in LBL		
A-FACT benefit £ as % of benefit fraud	4.0%	= 11 / (14 x 4)
A-FACT housing £ as % of housing fraud	9.0%	= 12 / (14 x 5)
A-FACT operations £ as % of operations fraud	2.5%	= 13 / (14 x 6)

Appendix B – Legislation to be followed in anti-fraud work

Corruption Act 1906
Police and Criminal Evidence Act (PACE) 1984
Local Government Finance Act 1992
The Council Tax (Administration and Enforcement) Regulations 1992
Criminal Procedures and investigations Act (CPIA) 1996
Data Protection Act 1998
Human Rights Act 1998
Freedom of Information Act 2000
Regulation of Investigatory Powers Act (RIPA) 2000
Proceeds of Crime Act 2002
Fraud Act 2006
Bribery Act 2010

Appendix C – Ten point counter-fraud blueprint (CLG May 2011)

1. Measure exposure to fraud risk
2. More aggressively pursue a preventative strategy
3. Make better use of data analytics and credit reference agency checks to prevent fraud
4. Adopt tried and tested methods for tackling fraud in risk areas – such as blue badge scheme misuse
5. Follow best practice to drive down Housing Tenancy and Single Person Discount fraud
6. Pay particular attention to high risk areas such as procurement and grant awards
7. Work in partnership with service providers to tackle organised fraud across local services
8. Maintain specialist investigative teams
9. Vet staff to a high standard to stop organised criminals infiltrating key departments
10. Implement the national counter fraud standards developed by CIPFA