



STOCKPORT
METROPOLITAN BOROUGH COUNCIL

Anti-Fraud, Bribery & Corruption - Annual Report

Internal Audit - Annual Report 2016/17

Issued by: John Pearsall (Internal Audit and Risk Manager)

Distribution: Audit Committee
Corporate Leadership Team (CLT)
Corporate Governance Group (CGG)

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1. What is an annual fraud report?

- 1.1 The purpose of this report is to present the work carried out during the past financial year to minimise the risk of fraud, bribery and corruption occurring in Stockport Council and to Stockport residents and other stakeholders. This supports the requirements of the Accounts and Audit Regulations (England) 2011, which state that the Council must have measures in place “to enable the prevention and detection of inaccuracies and fraud.” In this context, we have taken fraud also to refer to cases of bribery and corruption.
- 1.2 The report also sets out planned work for 2017/18, highlights some of the current areas of fraud risk and provides a conclusion on the effectiveness of the Council’s arrangements to minimise the risk of fraud.

2. Key mechanisms - policies and procedures

- 2.1 Effective policies and procedures are essential to ensure that all officers and members are aware of their roles and responsibilities in identifying and managing the risk of fraud. We continue to review and update these on an ongoing basis. All policies and associated documents are available on the Council’s intranet.

Whistleblowing Procedure

- 2.2 The Council has an up to date Whistleblowing Procedure available to all staff and members.

Anti-Fraud, Bribery and Corruption Strategy

- 2.3 The Anti-Fraud, Bribery and Corruption Strategy has been extensively updated resulting in the merger of the strategy and policy documents and the streamlining of supporting procedures. These were reviewed in November 2016. The strategy incorporates:-
 - The strategy;
 - An Action Plan;
 - A Response Procedure outlining the role of the Fraud and Irregularities Panel;
 - Staff and management responsibilities for putting in place controls to minimise the risk of fraud and to encourage staff to report concerns at the earliest opportunity, using the whistleblowing reporting procedure if necessary.

3. Risk based planning to minimise the risk of fraud

- 3.1 The annual Internal Audit planning process includes a specific fraud risk assessment to ensure that all relevant risks are identified and to support the development of a programme of proactive anti-fraud work that minimises the risk of loss to the Council. The detailed plan of work for 2017/18 is included as Appendix 1 to this report.
- 3.2 Any findings from the reviews will be included within the quarterly Internal Audit progress reports.
- 3.3 Internal Audit liaise closely with Corporate Leadership Team (CLT), Senior Management Team (SMT) and the Corporate Governance Group (CGG) to ensure that managers give proper consideration to identifying fraud.
- 3.4 The risk of fraud has been identified as a corporate risk and quarterly updates on mitigating actions are presented to CLT and the Audit Committee
- 3.5 The Internal Audit Plan is supported by a resource to support the further roll out, implementation and development of the continuous auditing/monitoring model, using IDEA interrogation software. Continuous Auditing is the use of technology to provide a range of on-going control evaluations to continually risk assessment and test key controls. Technology plays a key role in the continuous audit process by automating the analysis of management information allowing for quick results that can then be examined. This model is already delivering more efficient assurance to service managers (in payroll, revenues and benefits and public realm) through the production of regular exception reporting thus providing assurance in key system control areas or through the quick identification of possible errors or queries with management information systems. This approach is actively helping to prevent and detect fraud and error.

4. Reporting and awareness raising to our stakeholders

- 4.1 Internal Audit report to the Audit Committee on a regular basis on corporate fraud issues. Any ongoing investigations or major incidents are also included within the regular Internal Audit progress reports taken to the Fraud and Irregularities Panel, CLT and the Audit Committee.
- 4.2 The Council subscribes to the National Anti-Fraud Network (NAFN), which promotes the sharing of information between Authorities and publishes regular bulletins on fraud cases and attempted scams. Internal Audit staff attend the CIPFA North West Fraud Group, which shares information on cases across the region and promotes best practice.

4.3 Other awareness raising activity during the year included:

- A review of the anti-fraud policy and associated arrangements throughout the Council.
- A training session provided to Audit Committee on Fraud Awareness.
- Fraud is identified as a corporate risk and is highlighted in the Corporate Risk Register.
- Consultancy and support on processes around issue and use of blue badge.
- Updated anti-fraud process introduced on all insurance claims received.
- Targeted Fraud workshops undertaken and further ones planned in 2017/18.
- Regular attendance and input to the AGMA Counter Fraud Group
- Regular National Anti-Fraud Network (NAFN) updates are circulated to key staff in the council and all schools.

5. Work carried out in 2016/17

Internal Audit – Proactive work

- 5.1 The following pieces of work were carried out as part of the Internal Audit Anti-Fraud Plan for 2016/17. As part of our established follow up process, we will seek to establish the extent to which agreed management recommendations have been implemented, on an ongoing and timely basis. Progress against these will be highlighted in future Internal Audit quarterly reports to the Corporate Leadership Team and Audit Committee.

Personal Budgets – Final Report Issued – January 2017

- 5.2 A review of personal budgets was undertaken and a moderate assurance opinion was given. This was on the basis that management in the Adult Social Care service are in the process of carrying out a review of the framework for the audit of clients in receipt of Direct Payments. Testing did confirm that clients in receipt of Direct Payments are, in the main, subject to the periodic audit process and generally comply with this process.
- 5.3 However, the service does not currently provide or promote fraud awareness updates to staff involved in the administration or assessment of Direct Payments and there is currently no agreed referral process in place in cases where a potential fraud has been identified and how to escalate these to management.
- 5.4 Management have agreed to implement all recommendations identified in the review and a formal follow up review will take place in 2017.

Review of Controls around Notice Day Payments – Final Report Issued – March 2017

- 5.5 A review was undertaken to confirm the accuracy of death dates notified to Adults and Social Care (ASC) by care homes against the Stockport Coroners database. We reviewed the information available and concluded that the dates of death noted by ASC for 2016/17 on the notice day spread sheet matched the dates reported by the coroners. Furthermore the notice day payments were calculated correctly per contract agreements. Consequently we did not recommend any control improvements or changes to the process. However it was stressed how important it is to regularly verify the accuracy of the information provided.

Sheltered Housing review with Stockport Homes Ltd – Final Report Issued – March 2017

- 5.6 A review was undertaken with Stockport Homes Ltd to confirm procedures and controls around sharing information on tenants in sheltered accommodation. The focus was to ensure that communication is effective and changes in circumstances informed quickly and accurately. To minimise communication errors it was stressed that all relevant staff be aware of the internal processes, this includes staff at Stockport Council and Stockport Homes Ltd.

Follow Up Review Insurance – Report Issued – April 2016

- 5.7 A review of insurance arrangements was undertaken and a Moderate assurance opinion was given. Basic checks are being carried out, but this was limited to claims only against Stockport Council. Wider checks, including claims outside of the Council, improvements in recording and more effective reporting were being explored with the intention to manage insurance fraud risk more effectively. It was established that currently there were no agreed timescales for implementation of the counter fraud checks, and other media sources were not being considered as part of the possible checks, where appropriate.
- 5.8 Consequently all five agreed recommendations have now been implemented within the agreed timescales.

National Fraud Initiative

- 5.9 The Council is required by Law to provide sets of data to the Cabinet Office for the matching exercise. The returned matched data identifies anomalies which require review, based on the quality and areas matched. Internal Audit co-ordinate the whole process, and establish the level of review based on risk, provide training where required, and manage the overall process. For 2016/17, there were two cycles of data matching:
- Single Person discount (SPD) matching where 10,659 matches were identified, of which 2801 were reviewed. This resulted in 277 cases, where liability had been increased by £111,366.20. Over 80% of this has either been recovered, or have been included in the new billing year.
 - Full data match (16 sets of data) that was issued in the final quarter of the financial year, where a possible 8,826 matches were identified, resulting in 3,157 considered as high priority. To date 868 have been reviewed, resulted in the possible recovery of £7,546.53 for Council Tax reduction errors, and £43,300 from a number of care homes, as a result of over payments.

Continuous Auditing

- 5.10 Internal Audit's data interrogation and analysis software (IDEA) has been used to provide information to managers on potential data quality or fraud issues on a monthly basis. In 2016/17 we continued with:
- **Payroll records.** To continuously audit basic areas which may identify ghost employees and ghost payments made before new employees commence employment. All 9784 employee records were tested and none were identified as suspicious or requiring further investigation. We did identify an employee set up and paid twice for three months, which has now been addressed and recovery is being arranged.
 - **Council Tax and NNDR closing and opening balances.** To identify where the outstanding balances from the old financial year are not migrated to the opening balance for the new financial year. All 141,193 council tax and 11,925 NNDR records were tested account by account, and all account figures reconciled. This will be carried out on at the start of each financial year, and on an annual basis to provide ongoing assurance on the accuracy of closing and opening balances on accounts.
 - **Highways Repairs.** The job status within the council's works' system for highways repairs was checked against the job status of our highways maintenance contractor system, to identify any anomalies. All 11,772 records from the Council's system and 11,552 records from the contractor system were tested. This identified discrepancies in the actual jobs between both systems, as well as inconsistencies in the status of jobs, which have been addressed and will be tested again at the beginning of 2017/18.

Investigations

- 5.10 Internal Audit undertake a wide range of investigations on a regular basis. Many involve confirmation of the extent of a control weakness or risk issue. Others provide recommendations to improve controls. A small number involve more detailed investigation. During 2016/17 we concluded two such detailed investigations.

In the first, a service area, with the support, advice and investigation skills of Internal Audit identified a member of staff misusing Council's time and resources for personal gain.

In the second, a service area identified a member of staff abusing their position and knowingly allowing conduct of other employees to bring the council into disrepute.

In both cases, the employees no longer work for the council.

Benefit Fraud Team and Council Tax Single Person Discount

5.11

Activity/Fraud Area	Council Tax Support (CTS)	Single Person Discount (SPD)
Cases carried over from 15/16	0	52
Cases opened in 16/17	11	358
Total active cases in 16/17	11	410
Sanctions	0	0
Overpayments created (not pursue sanctions)	0	0
Corrected liability	£4,271.95	0
Increased liability	0	£113,809.59 (Note 1)

Note 1* £111,366.20 is from NFI figures

Trading Standards

5.12 Every year Stockport's Trading Standards receive approximately 5000 service requests – the vast majority of these being received directly from the Citizens Advice Consumer Service. Of these typically around 1,000 are direct referrals and a further 4,000 are notifications (for information purposes only).

The service requests fall under a wide range of consumer legislation, with many having an element of fraud. The more substantial investigations around fraudulent activity tend fall into three main categories.

Doorstep Crime / Rogue Traders

Typically we will investigate half a dozen cases each year involving householders who have been conned into paying an extortionate price for very poor quality work on their property. This can involve roofing, driveways, fencing, building work or garden maintenance. This kind of crime often targets some of the most vulnerable members of our community (the elderly and infirm in particular), with residents sometimes paying out thousands of pounds for work that is never finished or sub-standard work that is only worth a few hundred pounds or is of such poor quality that it has to be completely re-done. We work in partnership with Greater Manchester Police and other agencies to carry out pro-active enforcement to target these criminals.

Car Traders

We investigate a number of complaints where the seller has misdescribed vehicles – this can be altering the mileage reading, falsifying the service history, selling the vehicle in a dangerous or unroadworthy condition or supplying parts that are counterfeit or stolen. This activity not only leaves the customer with a vehicle worth substantially less than what they paid, but can also compromise the safety of the travelling public. Often these complaints require long and complex investigations to pull together the necessary evidence to prosecute those responsible.

Counterfeiting

This is sometimes seen as a “victimless crime” by members of the public, but this is far from the truth. We deal with complaints concerning all manner of counterfeit goods including fake car parts, perfume, clothing, DVDs, handbags, tobacco and alcohol. The public sometimes do not see this as an issue as they often know the goods they are buying are fake, but often what they do not appreciate is that suppliers are frequently linked to organised crime groups and that legitimate retailers can suffer greatly as a result of their actions. We do get plenty of instances of consumers buying fake products which they thought were genuine (handbags, perfume and clothing for example). Finally, it is important to realise that fake products are produced under no controls whatsoever and can compromise consumer safety (perfume, car parts, vodka).

Trading Standards do prosecute where there is sufficient evidence and penalties range from fines to custodial sentences. It is also worth bearing in mind that Trading Standards will use Proceeds of Crime Legislation to go after the criminal's assets.

Stockport Local Assistance Scheme (SLAS).

- 5.13 SLAS include as part of their application process, the status of any Credit Union loans to identify where they may be defrauding or be ineligible for support. Different areas of the council, issue fuel vouchers for payment toward utilities. They now cross reference monthly to identify where the same household has been supported across the three services and identify households that may be very vulnerable / or fraudulently obtaining help with fuel.

Counter Fraud – Blue Badges

- 5.14 In August 2016, the Counter Fraud Officer transferred from Revenue and Benefits to internal audit, enabling the resource to focus on counter fraud work throughout the Council.
- 5.15 One area involved joint working arrangements with Parking Services, using current legislation to enforce the potential misuse of blue badges. New procedures went live on 1st April 2017.
- 5.16 Positively, during the initial trial, 18 current blue badge were identified as potentially fraudulent. This led to the seizure of five badges and the issuing of an additional five Penalty Charge Notices. The Counter Fraud Officer is now looking at prosecuting future offenders, where appropriate.
- 5.17 Each blue badge costs the applicant £10 and the general assumption is that Stockport will forego £500 of income a year for each badge issued. It is therefore difficult to quantify an overall saving from this work but penalty charge notices will increase income into the Council and any reduction in the fraudulent use of blue badge will benefit genuine users in Stockport as allocated spaces will be freed up.

Insurance Claims

- 5.18 Robust in-house counter fraud checks on insurance claims identified 13 high risk (red) claims and 14 medium risk (amber) claims. All these claims have been repudiated. This means that Insurance Officers are not satisfied that the information provided by the potential claimants is accurate or robust. The value of reserves placed on the high risk claims totalled £109k and for medium risks claims the value confirmed at £121k. This provides for a combined overall saving of £230k.

6

Future developments and areas of risk

- 6.1 The Internal Audit Plan 2017/18 contains a Fraud Risk Assessment and the areas below have been included in the Plan. Further potential fraud risk areas were also assessed and will be reviewed throughout the year for possible inclusion in the Plan in the future:

Learning disabilities (housing tenancies) – management of client finances	A review of the counter fraud arrangements to prevent and detect financial abuse of vulnerable adult's client finances.	Proactive anti-fraud review	20
Personal budgets	A review of the counter fraud arrangements to prevent and detect abuse of personal budgets.	Proactive anti-fraud review	15

Highways insurance claims	A review of the counter fraud arrangements to prevent and detect fraudulent highways insurance claims.	Proactive anti-fraud review	15
Mandate fraud within the Council	A review of the counter fraud arrangements to prevent mandate fraud.	Proactive anti-fraud review	15
Procurement and payment fraud	A review of the counter fraud arrangements to prevent procurement and payment fraud (e.g. collusion, conflict of interests, abuse of position).	Proactive anti-fraud review	15
Blue Badges	Counter fraud review of new arrangements.	Proactive anti-fraud review	10
Council Tax	Counter fraud arrangements to detect fraudulent claims for Single Persons Discount and Council Tax Reduction and Support.	Proactive anti-fraud review	20
Business Rates	Counter fraud arrangements to detect fraudulent claims for discounts and small business rate relief.	Proactive anti-fraud review	20
Training and Workshops	Delivery of workshops with colleagues from AGMA on Council Tax/Business Rates fraud risks and insurance fraud risks (Internal Audit and Risk Manager and CSS Officer – Internal Audit)	Workshops	2

7 Conclusion

- 7.1 The wide range of the activities and incidents covered in this report highlights the extent to which fraud and error exist as risks to the achievement of the Council's objectives and the degree to which these risks can change over time.
- 7.2 Positively, the number of cases reported in Stockport continues to be low in comparison with other authorities. In order to maintain this position there are programmes of work in place across the Council to identify and investigate fraud risks and there is effective communication between the services involved.
- 7.2 Our conclusion is that the Council had effective measures in place during 2016/17 to enable the prevention and detection of inaccuracies and fraud. Work will continue in 2017/18 to ensure that the Council has all the necessary policies and procedures in

place to create and promote an environment where fraud, bribery and corruption are not tolerated.

APPENDIX 1 - Anti-Fraud Plan 2017/18			
Learning disabilities (housing tenancies) – management of client finances	A review of the counter fraud arrangements to prevent and detect financial abuse of vulnerable adult's client finances.	Proactive anti-fraud review	20
Personal budgets	A review of the counter fraud arrangements to prevent and detect abuse of personal budgets.	Proactive anti-fraud review	15
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Planned development for Continuous Auditing Model (IDEA) 2017/18				
	Title	Details	Days	Reason to include
	Payroll	Variations	3	Complete development (including full automation) and allow integration of established payroll areas.
	SAP Control Accounts (Payroll)	Car Loan Repayments	17	High risk areas, also a lack of resources and inconsistencies in management of these control accounts.
		Car Loans raised		
		Payroll Deductions (All)		
		HMRC deductions Income Tax, NI, PAYE (All)		
		Pensions deductions (All)		
		Payroll Busy Bees Child Care Vouchers		
		Student Loans		

Procurement cards / Travel and subsistence claims	Used during holiday/sickness periods	10	Monitoring of procurement cards and travel and subsistence claims being used / claimed during periods of absence (including weekends), or cards being used by other persons.
Absence	Ghost Employee	5	To identify where possible Ghost employees are on the system
	Incorrect payment of Sick Pay		To identify where staff are on long term sick, and not paid at the correct rate.
	Incorrect payment of maternity Pay		To identify where staff are on long term sick, and not paid at the correct rate.
	Employee receiving a salary after leaving		To identify where a leaver has not been recorded as a leaver, and continue to get paid.
	Leavers profile being used to access council systems		To identify where a leaver's profile remains active.
Debtors Accounts	Accounts on Hold	2	Accounts placed on hold are removed for debt recovery, once the agreed time limit has elapsed.