

**RSM** Tenon

**THURROCK COUNCIL**

Audit Committee Briefing Paper: Approach to tackling fraud risks across Local Government

Confidential

June 2012

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## 1 BACKGROUND TO COUNTERING FRAUD IN LOCAL AUTHORITIES

1.1 Fraud in local authorities has always been present; the large budgets combined with the size and complex nature of the business means that the size of the prize is attractive to fraudsters. The Council is acutely aware of this and is keen to capitalise on the teams and skills already in place and from our interviews is clearly committed to countering fraud and corruption.

Fraud matters - every pound lost through criminal activity is a pound stolen not just from the Council but from the local community and the key public services the Council provides.

1.2 Local authority activity is diverse and, based on research and intelligence, fraud is likely to be prevalent in Housing and Council Tax benefit payments; business rates; procurement; housing management and rents; other welfare services; schools admissions; and in fact in every service and activity. It is estimated that the level of fraud across English local authorities is over £2bn **excluding** benefit fraud. The National Fraud Authority estimates the £2.1bn to be made up of:

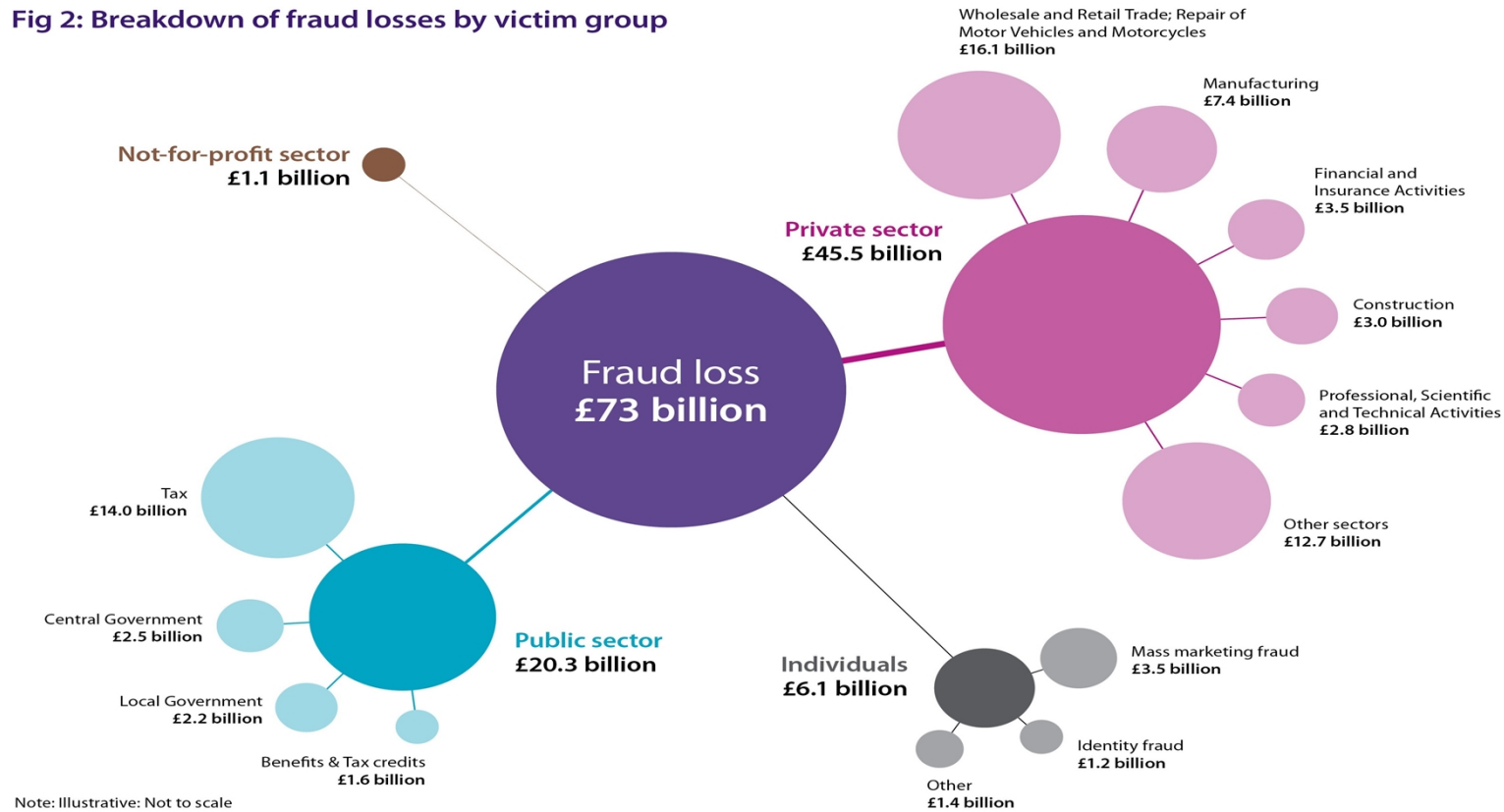
- Housing tenancy fraud: £900 million
- Procurement fraud: £855 million
- Payroll and recruitment fraud: £152 million;
- Council tax fraud: £90 million;
- Blue Badge Scheme abuse: £46 million;
- Grant fraud: £43 million;
- Pension fraud: £8 million.

1.3 These are large and not insignificant sums of money and could represent many thousands (if not millions) of pounds for the Council. It is also obvious that resources need to be directed to areas of high risk; this includes procurement and internal fraud, not simply focussing on benefit-related issues. As such, tackling fraud should be seen as financially, reputationally and politically positive, as should be putting in place robust, sensitive and proportionate risk prevention strategies. Individual council leaders, chief executives and Section 151 officers must ensure that their authorities are fraud-aware and equipped to take preventative and reactive action. However, it does not stop there; a successful counter-fraud strategy should mobilise staff at all levels and all those who do business with the Council, ranging from members of the public to contractors, suppliers and elected members.

## 2 NATURE & SCALE OF THE PROBLEM

2.1 Each year the National Fraud Authority (NFA) produces the Annual Fraud Indicator (AFI) which provides an overview of the cost of fraud broken down by sector. The AFI for 2012 identified that in excess of £2 billion was lost to fraud across Local Government. This year the NFA has also published Fighting Fraud Locally: The Local Government Fraud Strategy, which is intended to help councils tackle fraud and prevent losses of over £2bn a year. It provides a blueprint to better equip local authorities to fight a range of frauds

Fig 2: Breakdown of fraud losses by victim group



### 3 IMPLEMENTING ACTION

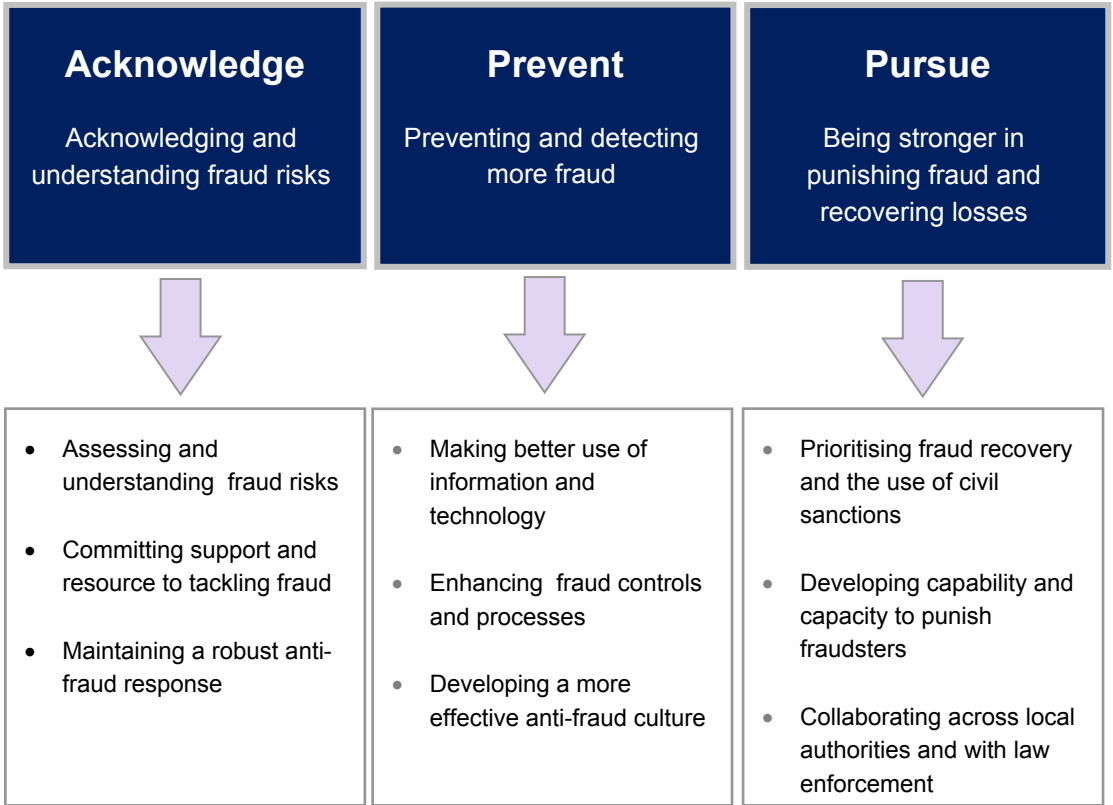
- 3.1 In line with the strategy for tackling fraud, a greater emphasis is now placed on preventing fraud from occurring in the first place, added with mechanisms and resources encouraged towards detecting occurrences of fraud. This is a shift from the traditional approach of tackling fraud, which was typically based around reactive methods such as conducting investigations. Whilst an effective investigative resource is an essential part of any strategy, it is considered more cost effective and less damaging to an organisation's reputation to prevent losses through fraud from occurring in the first place.

The diagram overleaf describes the approach recommended by the NFA across Local Government, which places a greater emphasis on prevention and detection.

The range of activities are categorised as:

- Acknowledge – acknowledging and understanding fraud risks
- Prevent – preventing and detecting more fraud
- Pursue – being stronger in punishing fraud and recovering losses

Local government will be better able to protect itself from fraud and corruption and will provide a more effective fraud response.



## 4 SOURCES OF BEST PRACTICE

- 4.1 Local authority fraud teams have never been in a position whereby there is a wealth of information and best practice available, which can be obtained through forming close working relationships with neighbouring councils and other agencies involved in undertaking anti-fraud work. Historically, fraud work undertaken in local authorities have been heavily focused on the investigation of benefit type fraud, whereas, best practice demonstrates that a greater emphasis should be placed upon investment on a corporate fraud function. This poses a challenge to Benefit Fraud Teams, as the skillset and experience often in place requires a level of development in order for a team to make a successful transition to a productive corporate fraud team, one which is delivering a service which is a risk based approach, delivering an anti-fraud & bribery strategy which is reducing fraud losses to a minimum.
- 4.2 RSM Tenon delivers corporate fraud support to a number of local authorities and has played an instrumental role in identifying best practice for distribution to the sector, inclusive of contributing to the most recent Fighting Fraud Locally strategy and the Compendium of Powers and Penalties, a best practice document to assist corporate fraud teams in delivering an effective service.
- 4.3 The following documents are what we recommend are considered and should be consulted prior to the implementation of any anti-fraud & bribery strategy across and Council:
- National Fraud Authority Fighting Fraud Locally: The Local Government Fraud Strategy (2012)
  - National Fraud Authority Fighting Fraud Locally: Checklist
  - Compendium of Powers & Penalties
  - Department for Communities and Local Government publication 'Ten ways to tackle council fraud'
  - National Fraud Authority (NFA) 'Tackling fraud and error across the public sector 2011' document
  - Audit Commission – 'Protecting the Public Purse 2011' document
  - CIPFA Red Book 2 "Managing the Risk of Fraud" best practice document
  - National Fraud Authority Annual Fraud Indicator 2012
  - Local Authority Investigator Officers Group (LAIIOG)
  - Institute of Counter Fraud Specialists (ICFS)