

AUDIT COMMITTEE

24 NOVEMBER 2011

FRAUD RESILIENCE

Report from: Internal Audit

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Summary

To note the outcome of the PKF report on the Authority's fraud resilience and approve the action plan for strengthening this resilience.

1. Budget and Policy Framework

- 1.1 Following the Council's decision to establish this committee, it is within the remit of this committee to consider the effectiveness of the Council's anti-fraud arrangements.

2. Background

- 2.1 The current constraints on public finances have resulted in a number of areas of spending coming under increased public scrutiny. Fraud within the sector is such a case in point and a recent report from the Cabinet Office stated:

"We no longer accept that fraud is inevitable. Fraud can be defeated, but only if we adopt an all-pervasive, sustained, zero tolerance culture. It is time to end the 'pay first, check later' status quo and start putting £21 billion of taxpayers' money to better use"

Eliminating Public Sector Fraud: The Cabinet Office Counter Fraud Taskforce Interim Report

- 2.2 The four key stages of the Cabinet Office strategy for addressing the fraud risk are:
- Collaboration – a high level Government wide exercise to remove the silos across all parts of the public sector and looking to jointly procure analytics
 - Assessment of risk and measurement of losses – assessing fraud risk before projects and programmes are underway. Reporting losses quarterly
 - Prevention – investment and resource on prevention not just detection and punishment. Designing out vulnerabilities
 - Zero tolerance – there is no acceptable level of fraud

- 2.3 The drive to address Public Sector fraud is underway at a time of increased fraud risk as:

“Tougher economic conditions will change the nature of fraud risks confronting the business, public and voluntary sectors. For example, otherwise law-abiding people facing increasing financial pressures may be driven to commit fraud or corruption out of desperation.”

Eliminating Public Sector Fraud: The Cabinet Office Counter Fraud Taskforce Interim Report

- 2.4 Local Authorities' vulnerability to fraud is also potentially increased by the abolition of the Audit Commission, announced on 13 August 2010, which could result in some significant and successful counter fraud tools disappearing. Additionally, the economic pressures affecting Local Authorities is resulting in significant changes in the way that work is delivered, and at any time of significant change there is an increase in the risk of failure of internal control and a consequential increase in fraudulent activity.
- 2.5 The latest figures for nationwide fraud perpetrated at Local Government level is £2.1billion. This figure, which excludes Housing Benefit and Council Tax Benefit, is calculated as follows:

| | |
|-------------------------------|-------|
| Housing Tenancy fraud | £900m |
| Procurement fraud | £855m |
| Payroll and recruitment fraud | £152m |
| Council Tax fraud | £90m |
| Blue Badge Scheme abuse | £46m |
| Grant fraud | £43m |
| Pension fraud | £8m |

- 2.6 The National Fraud Authority has commenced the development of a local authority strategy '*Fighting Fraud Locally*', which intends to reflect the importance of local authority fraud and the work under way and still to be done to address it. This report is due in December and is likely to highlight the levels of fraud risk within each Local Authority.
- 2.7 In the light of the increased vulnerability to fraud, the stated objectives by Government, and the impending report by the NFA, all Local Authorities will be looking to review their fraud resilience.

3. PKF Report

- 3.1 PKF published a report this year, titled 'The Resilience to Fraud of the UK Public Sector'. The report was based on a survey questionnaire and covered not only Local Authorities, but also other public bodies including Government Departments, NHS Bodies, and Higher Education Institutions.
- 3.2 Following on from this work it was agreed that an independent assessment of the arrangements in place to address the risk of fraud in Medway would be a useful piece of work. PKF agreed to perform an on-site review of the Authority's current resilience and response to fraud to help to inform the plans being developed to strengthen our resilience. The PKF report resulting from that review is attached for your information at **Annex A**.

- 3.3 The outcome of the review has been discussed with officers and has confirmed some of the concerns we had identified. The recommendations in the report have assisted us in identifying an action plan (**Annex B**) to address the shortcomings. The key failings highlighted in the report are the lack of a proactive approach to fraud prevention and detection, a lack of joined up approach to corporate fraud, and no measurement of the level of potential losses.
- 3.4 A key finding in the report is that there is a lack of quantified fraud data. Clearly in the context of developing a business case for anti fraud activity this is an important piece of information. It is proposed to address this by undertaking an exercise to identify key fraud risk areas, assess fraud vulnerability, and provide a report to Audit Committee for the March 2012 meeting setting out the proposed plan of action for addressing the vulnerabilities identified.
- 3.5 This review will give the Authority invaluable knowledge of Medway's fraud risk profile, and identify the most appropriate target for proactive investigation and help determine where to focus resources on developing fraud awareness. It will provide information of the materiality of the risk, the potential benefits to the Council of proactive work in the identified areas, and an estimate of the resourcing implications of this work. The added benefits to undertaking this exercise will be the enhancement of Audit Services knowledge and understanding of the relevant systems and processes in place to mitigate the risk of fraud, and the way that this information can be utilised to help in the development of the 2012/13 Internal Audit Plan.
- 3.6 The report from PKF also provides benchmarking information against other Public Sector bodies. The Authority's arrangements have been compared mainly with the findings of the survey used to inform the report titled "The Resilience to Fraud of the UK Public Sector", and a ranking determined. The ranking indicates that Medway is very much in the fourth quartile of results, and therefore that there is significant work to be done to raise the fraud resilience of the Authority. However this ranking should be viewed with some caution as whilst the questions covered were the same as for those that took part in the UK Wide data capture exercise, and the same scoring methodology was used, the report here was based on site visits and interviews rather than a self assessment.
- 3.7 The findings of the PKF report support our assessment of the issues that need to be addressed as a matter of priority, in particular enhancing the measurement of fraud risk, confirming Audit Services as the Corporate Fraud function for the Authority, reviewing strategy and communications, and collating data needed to inform a focused and proactive approach to fraud issues.
- 3.8 Since the PKF Fraud Resilience report was received and the action plan developed, a consultation document was received from the DWP entitled "Options Paper for the inclusion of Local Authority Benefit Fraud Investigation Teams in the Single Fraud Investigation Services". A copy of this, and our response which was sent 14 October 2011, is at **Annex C**.

4. Single Fraud Investigation Service

- 4.1 The Government has made a commitment to create a single fraud investigation service (SFIS) to investigate benefit and Tax Credit fraud, an approach that will bring together the work of DWP, HMRC and Local Authorities. The timing of the

change is 2013 to coincide with the introduction of Universal Credit, a payment system that will replace benefits and Tax Credits for people of working age.

- 4.2 The introduction of Universal Credit and the SFIS will have a significant impact on the work of Medway's Counter Fraud Team, but the nature of that impact has yet to be determined. The consultation document was the first time Local Authorities have had the opportunity to contribute to the debate.
- 4.3 The practicalities of how this new service will be delivered have not been resolved, and the consultation document detailed the four options being considered with regard to the employment status of the investigators that would be undertaking the Universal Credit investigations. Whatever specific employee arrangements are agreed, the result will be that a certain number of the current Counter Fraud team will be exclusively undertaking investigations into Universal Credit fraud under the DWP arrangements.
- 4.4 It is however important that Medway retain a fraud investigation presence to deal with those benefits not covered by the Universal Credit and also to undertake investigations into internal fraud. The work in relation to fraud risk assessment and exact resource requirements for this work is something that will be considered. The coming introduction of these changes does bring with it a number of uncertainties, but it may also provide additional opportunities and resources to support the further development of our Corporate Fraud approach.

5. Risk Management, Financial and Legal implications

- 5.1 The risk management, financial or legal implications are set out in the body of this report.

6. Recommendations

- 6.1 Members are asked to note the outcome of the PKF report, and approve the action plan. There will be a further report back to the committee on progress in March 2012.

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Background papers

None.



Accountants &
business advisers



Medway Council

Fraud Resilience Report

September 2011

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1 Introduction

- 1.1 Fraud is a problem which undermines the stability and financial health of organisations from across the world and from every economic sector. It is not a victimless crime, but one which denies us the quality of public services which we pay for as taxpayers, undermines our job security as employees, reduces the value of companies for us as shareholders, causes additional costs for consumers of public services, and even denies the beneficiaries of charities the full benefit of donations made. It is therefore a problem which is important - and one which needs to be addressed.
- 1.2 Over the last fifteen years there has been a change in how fraud is addressed. This change has seen organisations move from focussing on individual fraudsters and merely reacting to what they do, with investigations which lead to potential sanctions and the recovery of losses, to treating fraud as a business cost like any other and seeking to pre-empt and reduce it.
- 1.3 The most extensive global research into the cost of fraud - undertaken by PKF (UK) LLP ('PKF') and the Centre for Counter Fraud Studies at University of Portsmouth (CCFS) in 2009 and being repeated again this year - showed that losses to fraud (and error) averaged 4.57 per cent of annual expenditure. The dataset from which this average was derived covered expenditure with a total value of £3 trillion sterling equivalent across 132 statistically valid and accurate measurement exercises in 44 organisations from nine countries and involved 32 different types of expenditure.
- 1.4 In UK Local Government, with 2010 expenditure of £173 billion, average losses of 4.6 per cent would mean just under £8 billion is lost each year.
- 1.5 The research also shows that this cost can be reduced - by up to 40 per cent within 12 months - and that the key cost-driver is the extent to which an organisation properly protects itself against fraud - how fraud resilient it is.
- 1.6 Further research undertaken by PKF and CCFS has lead to the creation of Europe's most comprehensive database of fraud resilience data, currently containing information from 376 organisations of all types. A fraud resilience review provides a 'helicopter' view of how well an organisation protects itself against fraud. It does not seek to detect fraud specifically or to identify processes or system weaknesses, rather it analyses the extent to which the organisation concerned can do this itself. Some 98 UK local authorities are included in this database.
- 1.7 This report reviews Medway Council's arrangements and its operations to provide an assessment of its resilience to fraud.
- 1.8 Organisations are rated out of a maximum possible score of 50 points and against 29 different criteria. The criteria cover five themes: Strategy; Understanding the Problem: Structure; Action and Results. Outcomes are then benchmarked against other organisations.
- 1.9 This report summarises the extent of Medway's resilience to fraud and makes recommendations, based both on the experience of the reviewer and drawing on best practice identified elsewhere, to highlight how the Council might protect itself better, if it wishes to do so.
- 1.10 Those undertaking fraud resilience reviews believe that work such as this makes a real difference. By expanding the extent of knowledge organisations hold about their own arrangements, we can help to ensure more informed and better quality decisions are taken.
- 1.11 Finally, we would like to thank Medway's Director of Finance and the Investigations Manager and other staff who gave their assistance and support as the review progressed. The willingness with which they did this provides evidence of the Council's willingness to strengthen further its arrangements for tackling fraud and corruption.

2 Executive Summary

- 2.1 Section 3 of the report outlines the background and context to this fraud resilience review. Section 4 of the report describes the extent of the review. Section 5 of the report describes the detailed findings of the reviewer. These are summarised below.
- 2.2 The Council has made a clear, corporate and open commitment at the most senior level to addressing the issue of fraud. However, this commitment is overly directed at internal, staff fraud. Desired outcomes from this policy are not as clear as they could be, and neither is what needs to be done to achieve them.
- 2.3 In respect of designing and implementing a strategy which is tailored to address fraud, Medway scored four out of a maximum possible six points.
- 2.4 The Council has some qualitative information about the nature of the fraud problems and associated risks it faces. Individual managers recognise that fraud is an issue and had thought about how it might impact in their own services. However, information about fraud risk is not consistently collated across Medway's operations, though high-profile individual cases of fraud are communicated appropriately. The Council's commitment to addressing the problem of fraud is clear but it is difficult to see how this can be achieved without credible information about the nature and scale of the problem.
- 2.5 In respect of understanding the nature and cost of fraud as a business problem, Medway scored 1.75 out of a maximum of four points. The main reason for a reduced score in this area is the absence of quantitative knowledge about Medway's fraud losses.
- 2.6 The Council has a counter fraud structure which is organised between investigations and audit; and between benefit and non-benefit fraud. The remit of those undertaking the work is clear, as is their authority to act. Links with other relevant organisations such as the Police are understood. However, more work needs to be undertaken to develop an integrated structure and to ensure more visible corporate involvement in, and discussion about, the progress made towards Medway's anti-fraud objectives.
- 2.7 In respect of maintaining a structure which can implement the strategy successfully, Medway scored eight out of a maximum 13 points.
- 2.8 Consistent with many public sector organisations, Medway's reactive counter fraud work is much stronger than its pre-emptive work. Given the greatest proportion of financial benefits arise from pre-emptive work, the Council now needs to focus more in this area. In our view, there are real opportunities to establish a stronger anti-fraud culture and a more effective deterrent effect.
- 2.9 In respect of using its structure to take a range of pre-emptive and reactive action, Medway scored 5.5 out of a maximum 12 points concerning pre-emptive action and 10.25 out of a maximum 12 points concerning reactive action.
- 2.10 The Council has arrangements in place to limit fraud losses by reactive work to detect, investigate and apply sanctions. Reputational damage resulting from individual cases of fraud can therefore be limited. However, at this stage of development of its counter fraud work, Medway has yet to develop a pre-emptive capacity to reduce fraud losses and to deliver the real financial benefits (and multiple return on costs) which are achievable.
- 2.11 In respect of measuring, identifying and delivering results, Medway scored 1.5 out of a maximum three points (although it should be noted that, at this stage of development of the Council's counter fraud work, the score is in line with expectations).
- 2.12 Section 6 of the report indicates that our overall fraud resilience rating for Medway. Out of a maximum of 50 points, the Council scored 31 points. This places the Council 211th out of 268 public sector organisations about which fraud resilience data is held. The performance is in the worst quartile.

- 2.13 Based on our assessment, there is further action the Council can take to protect itself against fraud. Section 7 of the report provides six recommendations as key steps the Council can take and involve:
- a more strategic approach;
 - accurate measurement of the nature and scale of fraud;
 - the creation of a central counter fraud function;
 - a clear programme of work to develop a stronger anti-fraud culture;
 - a clear programme of work to develop a stronger deterrent effect; and
 - developing key performance indicators for Council-wide fraud
- 2.16 Appendix 1 contains an action plan with detailed recommendations the Council should implement to improve its fraud resilience. Appendix 2 provides details about the scores assigned to each of the 29 questions we asked and the names and designation of staff we interviewed.
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3 Background and Context

- 3.1 Medway Council spends over £700 million delivering services to local people. It has a forward capital programme amounting to over £100 million and spends around £70 million per annum on capital projects. Over 7,000 people are employed directly by the Council and in its schools. Budgets managed directly by schools amount to £195.7 million per annum. It delivers a wide range of local services to more than 250,000 residents in the North Kent area (Chatham, Gillingham, Rainham, Rochester and Strood).
- 3.2 The range of services the Council and its strategic partners deliver is wide. There are many stakeholders in Medway, including local businesses, Charity and Voluntary Organisations and importantly, local communities themselves. The Council's provision of education and learning services, its protection of the environment and control of planning, its role in health and social care, and its housing, leisure, transport and streets functions are overseen by 55 Councillors elected from 22 Wards in the area.
- 3.3 Fraud can affect Medway both internally and externally, and any effective policy or strategy to counter it should reflect this. The potential types of fraud that can relate to these areas are diverse and managing the risk of fraud is no easy task.
- 3.4 The Council is dealing with a difficult financial outlook. In response to the Governments Comprehensive Spending Review and local government spending settlement, it has reduced its budgets by over £23 million in 2011/12.
- 3.5 The aim of this report is to provide recommendations for Medway to ensure that the reality of the extent of its protection against fraud accords with the clear policy commitments which have been made, taking account of its current position.

4 The extent of the review

- 4.1 The review took place over eight weeks between 20th May and 31st July 2011. It was undertaken by Jim Gee, Director of Counter Fraud Services for PKF('the reviewer'). The reviewer has more than 29 years specialist, professional experience in countering fraud.
- 4.2 Phase 1 of the review took place from 20th May and involved:
- identification of key personnel to be interviewed;
 - acquisition of key documentation to be reviewed; and
 - gaining an understanding of the nature of Medway and its operations.
- 4.3 Phase 2 took place from 6th June 2011 and involved a number of visits to Medway to interview 21 senior staff - chosen after discussions with the Director of Finance and the Investigations Manager and shown at Appendix 2. The reviewer is most grateful to the interviewees for their helpful and positive attitude.
- 4.4 In addition, more than 450 pages of documentation were obtained and reviewed.
- 4.5 The review covers all areas of fraud concerning the Council. The picture differs substantially between fraud affecting benefits, where the Council is administering a system on behalf of the Department of Work and Pensions (DWP) and other types of fraud, directly concerning the Council's own resources. The national framework provided by DWP for benefit fraud means that more work has been undertaken by the Council in this area than in other areas of fraud, as is described later in this report.
- 4.6 The assessment considered all aspects of what it takes for an organisation to be resilient to fraud:
- designing and implementing a **strategy** which is tailored to address this problem;
 - understanding the nature and cost of fraud as a business **problem**;
 - maintaining a **structure** which can implement this strategy successfully;
 - using the structure to take a range of pre-emptive and reactive **action**; and
 - measuring; identifying and delivering **results**.

5 Detailed findings

- 5.1 A fraud resilience review considers the extent to which an organisation is effectively protected against fraud. As highlighted above, five main areas were considered involving 29 key questions. The questions are derived from the latest professional standards concerning counter fraud work and relate to data held concerning 376 organisations in a fraud resilience benchmark database which PKF operates with the Centre for Counter Fraud Studies at the University of Portsmouth.
- 5.2 Some 170 different factors are taken into consideration when determining the eventual rating from a maximum of 50 points.
- 5.3 The findings of this report are presented around each of the 29 questions and divided into five areas - Strategy, Problem, Structure, Action and Results. They have been drafted to provide clear and concise information which can inform action.
- 5.4 Section 6 of this report contains recommendations to assist Medway in further strengthening its protection against fraud.

Designing and implementing a strategy tailored to address the problem of fraud

- 5.5 This first area to be considered concerns the extent to which an organisation has designed, agreed, communicated and implemented a clear strategy to address the issue of fraud. The reviewer looks at the extent to which the organisation is 'signed up' to the strategy; understands what it involves and is focussed on the intended beneficial outcomes.
- 5.6 The general view of those interviewed is that the Council could focus more on fraud as an issue affecting the whole organisation. However, in the context of many different issues which compete for management attention, fraud is only one aspect. It has recently become a more visible management priority as a result of individual cases which have come to light. However, in the absence of 'hard' information about its negative impact (and particularly its cost), it is more difficult than it might otherwise be to maintain the management focus which would ultimately help to reduce fraud.
- 5.7 Medway's policy is clear and has been agreed by Councillors, but implementing the policy is more difficult. As one interviewee said, fraud is 'not seen as a generic phenomenon' within the council, but one which is responded to in different ways by different services. This situation has the advantage of service 'ownership' of the issue but the disadvantage of a lack of coordination and strategic approach.
- 5.8 The Council has made a clear, corporate and open commitment at the most senior level to addressing the problem of fraud. However, this commitment is overly directed at internal, staff fraud. Desired outcomes from this policy are not as clear as they could be, and neither is the action needed to achieve them.
- 5.9 The detailed questions, our findings and scores are summarised below.

Question 1: Does the organisation have a written counter fraud and corruption strategy?

- 5.10 The Council has an outline 'anti- fraud and corruption policy'. This is included in Chapter 5 of its Constitution and states that 'the Council has developed comprehensive financial practices and procedures to help ensure that acts of fraud or corruption are not committed against it'. The document is clear and concise and has been approved by Councillors. It is embedded in the Council's constitution.
- 5.11 The nature and clarity of the commitment made and the senior level 'buy in' are all positive factors. That it is embedded in the Council's constitution is positive, but its form may limit the extent to which staff are aware of it.
- 5.12 It is also an outline policy, as one interviewee commented, rather than a strategic statement of what Medway 'plans to do about fraud, how and why'. This means publishing a policy which can easily be communicated and understood. The policy also relates predominantly to internal fraud by staff and says little about external fraud perpetrated against the Council.
- 5.13 The policy has been in place since 2008 without review. As another interviewee said, 'Fraud as an issue hasn't been high on the agenda until the last six months. This fraud resilience review is therefore timely.

Question 1 score: 1.5 points out of 3 points

Question 2: Does the strategy have a clear objective of better outcomes (i.e. reduced losses to fraud) and not just activity (i.e. the number of investigations, prosecutions, etc.)?

- 5.14 Medway's 'anti-fraud and corruption policy' describes its primary objective as avoiding damage to 'the integrity of the Council and those with whom they work'. This is one possible (important) outcome based commitment.
- 5.15 Some interviewees offered different and insightful suggestions for: 'protecting 'public confidence' and 'the Council's credibility'; 'preventing criminal activity'; and 'saving money'. However, overall, there was inconsistent understanding among those interviewed, about what the benefits flowing from counter fraud work were intended to be. Only five of the 21 people interviewed mentioned specific outcomes.
- 5.16 In our view, there needs to be a better, common understanding about the objectives set for the Council's counter fraud work and the outcomes expected.

Question 2 score: 0.5 points out of 1 point

Question 3: Has the strategy been directly agreed by those with executive authority for the organisation?

- 5.17 As highlighted above, the 'anti-fraud and corruption policy' has been agreed by Councillors.

Question 3 score: 2 points out of 2 points

Understanding the nature and cost of fraud as a business problem

- 5.18 The second main area to be considered concerns an organisation's knowledge about the nature and scale of the fraud which affects it. The reviewer looks at what is known, how this information is recorded and how it is used.
- 5.19 As a large organisation, operating in a challenging environment, with many different services to run, significant amounts spent on procurement, and annual expenditure of over £700 million, it is inevitable the Council will be affected by fraud.
- 5.20 Two of the largest areas of expenditure in any organisation usually concern procurement and payroll and Medway is no exception. However, those interviewed commented that, while they had considered how fraud affected their own service areas (such as private sector housing, home care, parking, and others), this specific focus needed to be matched by an equally strong corporate focus across the totality of the Council's expenditure.
- 5.21 The Council provides some qualitative information about the nature of the fraud risks it faces. Individual managers recognise that fraud is an issue and had thought about how it might impact in their own areas. However, this information about risks is not collated across Medway's operations (apart from individual cases which have been investigated). Medway's commitment to addressing the problem of fraud is clear but it is difficult to see how this can be achieved in the absence of data about the nature and scale of the problem.
- 5.22 The detailed questions, our findings and scores are summarised below.

Question 4: Are fraud and corruption risks included in the organisation's Risk Register (or equivalent)?

- 5.23 There was inconsistent understanding about the existence and contents of the Council's corporate risk register among interviewees. It was generally felt to be irrelevant to the day to day work of staff and several people interviewed said that they not aware of it.
- 5.24 This is a situation the reviewer has encountered before, where there is a difference between the existences of a process (in this case a corporate risk register) and the extent to which the process is meaningful and has the impact intended. More positively, it was evident officers successfully dealt with a wide range of risks every day, whether or not documented in a risk register.
- 5.25 With specific reference to this question, the reviewer was informed that fraud and corruption risks are included in the risk register.

Question 4 score: 1.5 points out of 2 points

Question 5: Does the organisation seek to estimate the total economic cost of fraud to it?

- 5.26 A number of interviewees (as stated above) referred to beneficial outcomes of counter fraud work including 'saving money' and reducing 'cost', although this is not a stated objective or intended outcome of the 'anti-fraud and corruption policy'. To reduce a cost, it is necessary to manage it; and to manage a cost, it is necessary to measure it. The Secretary of State for Communities and Local Government

recently issued a list of 'top ten' tasks for local Councils in countering fraud¹ and included the measurement of exposure to fraud as the very first task.

- 5.27 One interviewee did describe an attempt at fraud loss estimation, undertaken by the Council in respect of the 2007/08 financial year, and provided documentation concerning this. This is a worthy first attempt to estimate losses (estimated to be £3.15 million at that point). However, it was acknowledged that the work was subjective, based on detected cases and other sources and without the statistical validity of a fraud loss measurement exercise. After discussion, the reviewer highlighted a training course which is available concerning fraud loss measurement.
- 5.28 In respect of benefit fraud, the DWP produces national estimates of the extent of fraud. However, the Council has not measured the possible amount of benefit fraud at Medway. The Council does quantify benefit overpayments and total recoveries where fraud has been found to have occurred for the purposes of the annual government subsidies return. Global research has shown that detected fraud even in the best performing organisations amounts to only about three per cent (1/30th) of total measured losses.
- 5.29 The reviewer received positive comments from officers interviewed in that measuring losses may provide a better focus for staff. One interviewee commented that measurement would help to ensure that fraud wasn't just seen as 'internal audit's problem'.

Question 5 score: 0.25 points out of 1 point

Question 6: Does the organisation use estimates of losses to make informed judgements about levels of budgetary investment in work to counter fraud and corruption?

- 5.30 Following on from the answer to the previous question, if losses are not estimated then they cannot be used to make judgements about how much to invest in, and what priority to give to, counter fraud work.
- 5.31 One interviewee did feel that despite there being an understanding of the higher level of risk in one area, this had not been reflected in the allocation of resources to administer the relevant processes. Indeed, others commented that specialist resources had been reduced, as part of necessary cost reductions, but without commensurate information indicating a reduced risk of fraud.
- 5.32 The reviewer's previous experience indicates that there is no substitute for 'hard' information about losses, where judgements are being made about resource allocation. 'Risk assessments' are rarely sufficiently persuasive - on their own - to influence decision makers.

Question 6 score: 0 points out of 1 point

Maintaining a structure which can implement strategy successfully

- 5.33 The third area to be considered concerns the extent to which an organisation has an effective structure in place with the appropriate remit, authority, skills and resources. This area of review primarily involves those whose specific function is to counter fraud, although the wider perception of others within an organisation is important.
- 5.34 A general, positive factor concerns the strength of the senior management environment. Interviewees generally concluded that where a course of action is

¹ Eric Pickles, Secretary of State for Communities and Local Government - 11 May 2011

agreed, it will usually be followed through. This structural factor makes effective counter fraud work much easier.

- 5.35 Public confidence in the Council's ability to combat fraud is important. Based on interviews held, Medway faces the risk and actual occurrence of fraud across a range of areas. It is also clear managers understand such issues and have taken action accordingly.
- 5.36 As in most local authorities, responsibility for counter fraud work in Medway is assigned to the Director of Finance and delivered by finance department staff. There are a number of factors which affect the strength of a counter fraud structure. These include the extent to which those tasked with the work have the authority to take it forward, the extent to which there is corporate 'ownership' of the work, the relevance and specific nature of the remit for the work, the resourcing of the work, and the extent to which those undertaking the work have the relevant specialist skills.
- 5.37 At Medway, specialist counter fraud expertise has been developed from work to address benefit fraud and has gradually been used more widely in respect of other types of fraud, such as housing and parking fraud. This process appears to have taken place on an ad-hoc basis to date, with no strategy for bringing different skill sets together to create the greatest synergy between them.
- 5.38 The remit of those undertaking the work is clear, as is their authority to act, and their links with other relevant organisations are strong. However, much of the specialist structure has been developed, and exists primarily, to counter benefit fraud. Non-benefit fraud work does not have the same focus or profile, perhaps because of the perception it is a less extensive problem.
- 5.39 Only limited attempts seem to have been made to integrate the work of the CFT and IAS, together with the work which proceeds on a bespoke basis in different service areas. The reviewer believes that such integration is important to ensuring the Council is properly protected across all its activities in the future.
- 5.40 More work is needed to ensure an appropriate level of specialist counter fraud resources is deployed and there is greater corporate involvement in, and discussion about, the progress made.
- 5.41 The detailed questions, our findings and scores are summarised below.

Question 7: Do those tasked with countering fraud and corruption have any special authority to pursue their remit effectively?

- 5.42 The role of managers, employees, the Internal Audit Service (IAS), External Audit, the Counter Fraud Team (CFT) and Members is described in the Council's 'anti-fraud and Corruption policy'. This a clear corporate statement concerning the roles of those tasked with countering fraud.
- 5.43 Benefit fraud investigators are accredited under social security legislation which legally entitles them to ask for, and obtain, relevant information.

Question 7 score: 3 points out of 3 points

Question 8: Are reports about work to counter fraud and corruption discussed at Management Team level?

- 5.44 Several different types of fraud report are reviewed by management across the organisation. These include reports about individual cases, summaries of IAS work and statistical and other reports concerning benefits fraud. Interviewees were aware summary reports are discussed at the Council's Audit Committee. This

reflects the current work undertaken, which one interviewee described as 'reactive rather than proactive'.

- 5.45 We found no evidence of discussion concerning the overall extent of fraud as it affects Medway, and the extent to which the Council is effectively protected against fraud. Management anticipates this report will allow such discussions to commence and continue.

Question 8 score: 0.5 points out of 1 point

Question 9 : Have all those working to counter fraud and corruption received the specialist professional training and accreditation for their role?

- 5.46 Those involved in countering fraud in the Counter Fraud Team (CFT) have been trained as Accredited Counter Fraud Specialists (ACFS). The ACFS accreditation is a requirement in respect of benefit fraud work and this is the main focus of the CFT's work.
- 5.47 However, despite members of the IAS having a role in investigating fraud, as stated in Medway's 'anti-fraud and corruption Policy', they have not received any specialist training, relying on experience of undertaking audit work and some limited and other general training provided on an ad-hoc basis.
- 5.48 Beyond the CFT and IAS, work continues in specific service areas to counter fraud and related problems, though the actual work done may not be consistently described in those terms. Such staff may well have the sufficient training for their service areas, however they may not have specialist counter fraud training.

Question 9 score: 1 point out of 3 points

Question 10: Do those working to counter fraud and corruption regularly update and refresh their skills?

- 5.49 The extent to which those undertaking counter fraud work update their skills is limited. There is evidence of some training for the (then new) Fraud Act 2006, and of attendance at a CIPFA Better Governance Forum seminar on 'Managing the Risk of Fraud', but little else. Given the speed of developments in the counter fraud area over the last decade, it is felt that more extensive refresher training would be helpful.

Question 10 score: 0.5 point 1 point

Question 11: Are checks undertaken on the propriety of new staff (beyond simply reference checks)?

- 5.54 No checks, beyond normal reference checks, are routinely undertaken on the propriety of new staff. One interviewee stated Criminal Record Bureau (CRB) checks were 'patchy'. The situation is not unique to Medway and there have been well publicised examples from across the public sector where CRB checks have been inconsistently followed up.

Question 11 score: 0 points out of 1 point

Question 12: Are there relationships in place with relevant external agencies or organisations (e.g. the Police, specialist legal firms who could advise on civil litigation, etc.)

- 5.50 The Council has formal, structured working arrangements in place with many organisations. These include relationships with 30 other agencies as part of the 'Kent Partnership', with the Kent Police, with South Coast Audit who provide local

counter fraud services for several local NHS organisations, with the National Anti-Fraud Network (NAFN) who coordinate liaison and the acquisition of intelligence and information across UK local government, and with the Borders Agency. Formal agreements exist with these organisations.

- 5.51 The perceived gap concerns HM Revenue and Customs, where, despite the Council's best efforts, it has proved difficult to obtain relevant information. This appears to be a national rather than a local problem.
- 5.52 Informally, there also appears to be good relationships linking the Council's Investigations Manager and her staff to key individuals who are in a position to assist with counter fraud work.

Question 12 score: 3 points out of 4 points

Using the structure to take a range of pre-emptive and reactive action

- 5.53 The fourth area to be considered concerns the range of action taken to counter fraud. Of particular importance is the extent to which the action taken is pre-emptive (i.e. designed to ensure that fraud losses are not incurred in the first place) as well as reactive (where inevitably, examples of fraud arise and need to be investigated).
- 5.54 This report considers action taken to:
- develop a real anti-fraud culture;
 - create a strong deterrent effect;
 - prevent fraud where it is not deterred by designing fraud-related weaknesses out of processes and systems;
 - detect fraud where it is not prevented;
 - investigate fairly and objectively suspicions of fraud as they arise;
 - seek to apply various criminal, civil, disciplinary and regulatory sanctions where fraud is believed to be present; and
 - recover losses.
- 5.55 The Council's reactive counter fraud work is much stronger than its pre-emptive work. Given that the greatest proportion of financial benefits derived from countering fraud arise from pre-emptive work, the Council now needs to focus more in this area. The reviewer believes that there are real opportunities to build on existing work, and the enthusiasm of those interviewed, and to develop a stronger anti-fraud culture and a more effective deterrent effect.
- 5.56 The detailed questions, our findings and scores are summarised below.

Culture

- 5.57 Several discussions took place with interviewees concerning how best to strengthen the Council's anti-fraud culture. Generally, there was agreement that more information clarifying what fraud is and why it is wrong and damaging to the Council, needed to be communicated to staff to 'push fraud higher up the agenda'.

Question 13: Does the organisation have a clear programme of work attempting to create a real anti-fraud and corruption culture?

- 5.58 The Council's 'anti-fraud and corruption policy' states that 'Implementing a successful Anti-fraud and Corruption Policy is largely dependent on the awareness and responsiveness of employees and members throughout the Council'. However, the reviewer did not find evidence of a clear programme of work to create a real anti-fraud culture.
- 5.59 Some work takes place with benefits assessors, and ad-hoc work has also taken place after particular investigations concerning incidents of fraud. There was widespread agreement among interviewees that more fraud awareness training 'made good sense' and should be extended.
- 5.60 Overall, there is a clear commitment to develop an effective anti-fraud culture, and some work has taken place. However this work needs to be strengthened and deepened in the context of a clear programme of activity.

Question 13 score: 1 point out of 2 points

Question 14: Has the organisation made clear that it has a zero-tolerance approach to fraud and corruption?

- 5.61 Interviewees felt that the Council made this commitment clear in respect of individual cases, and through related publicity. This is a difficult area to balance in that it is important not to create a perception the incidence of fraud can be reduced to zero, while emphasising the honest majority of staff and citizens find fraud to be completely unacceptable.

Question 14 score: 1 point out of 1 point

Question 15: Are there arrangements in place to evaluate the extent to which a real anti-fraud and corruption culture exists or is developing throughout the organisation?

- 5.62 The reviewer could not find any evidence of arrangements in place to evaluate the extent of the anti-fraud culture.

Question 15 score: 0 points out of 1 point

Deterrence

- 5.63 Where staff fraud is proven at Medway, it is a serious disciplinary offence with a range of possible sanctions. This is made clear to employees when they first receive induction training. No statistics were available concerning the number of cases resulting in dismissal. Details of some cases are communicated to staff where this is felt to be appropriate, but this is not routine.

Question 16: Does the organisation attempt to create a strong deterrent effect?

- 5.64 The Council does take action to deter fraud. Articles about benefit fraud sanctions have been published in the local media, and fraud has been covered as an issue both in internal Council communications and externally in 'Medway Matters'.

- 5.65 The clear commitment of Councillors has been communicated to staff, based on the 'anti-fraud and corruption policy'. However, several interviewees felt further re-enforcement of the message was needed - 'boundaries needed to be made clearer'; and 'more could be done'.
- 5.66 One interviewee cited an example where staff perceived management allowed a member of staff to resign rather pursue disciplinary sanctions. It was felt such perceptions undermined an effective approach to deterrence.

Question 16 score: 1 point out of 2 points

Question 17: Does the organisation seek to publicise (a to f):

| Does the organisation seek to publicise: | | Findings | Score |
|---|--|---|--------------------------------------|
| (a) | <i>The hostility of the honest majority to fraud and corruption</i> | While there was a common feeling among interviewees that this should happen, the reviewer did not find evidence that it had happened. | 0 points out of 0.5 points |
| (b) | <i>The effectiveness of preventative arrangements</i> | While there was a common feeling among interviewees that this should happen, the reviewer did not find evidence that it had happened. | 0 points out of 0.5 points |
| (c) | <i>The sophistication of arrangements to detect fraud and corruption</i> | This, coupled with messages about the effectiveness of sanctions, was felt to be effective in deterring fraud. However, the reviewer could find no evidence of conveying these messages. | 0 points out of 0.5 points |
| (d) | <i>The professionalism of those investigating fraud and corruption and their ability to uncover evidence</i> | The reviewer felt that, simply the presence of CFT, was significant in this area, although one interviewee felt the deterrent effect had been impaired because of the reduction in resources available to the unit. | 0.25 points out of 0.5 points |
| (e) | <i>The likelihood of proportionate sanctions being applied</i> | <p>The likelihood of sanctions being applied represents a powerful deterrent, but the experience of the reviewer would indicate that this needs to be demonstrated by both individual cases and overall statistics. Some individual cases are currently communicated to staff by email.</p> <p>The reviewer found evidence of work to publicise external benefit fraud via the media and internal fraud to MC staff, however, we recommend the volume and prominence of communications should be increased.</p> | 0.25 points out of 0.5 points |
| (f) | <i>The likelihood of losses being recovered.</i> | This factor did not appear to be part of current work to create a deterrent effect. | 0 points out of 0.5 points |

Prevention

- 5.67 The reviewer found a generally reactive approach in place, with managers trying to put right what has gone wrong after an adverse event, but (perhaps understandably) focussing on many other issues and not having the time or focus to act proactively. The problems encountered and the lessons learned by managers do not appear to have been collated corporately, in order that Council-wide understanding of fraud can be maximised.

Question 18: Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?

- 5.68 To the extent that this takes place, the evidence obtained by the reviewer indicates that it happens within service areas, without a strong strategic view across the Council to identify common weaknesses and solutions. It is accepted that, to some extent this happens as part of the audit planning process, however, in the reviewer's judgement, this could be more specifically focussed on fraud and corruption-related policy and systems weaknesses.
- 5.69 Interviewees gave several examples of changes they had made in their own areas, but the reviewer found no evidence this had happened as a result of a corporate direction. One interviewee felt that more could be done generically to improve similar systems within different service areas to share knowledge and that the current system was simply 'informal and intuitive'. It is possible such a role could be undertaken by the IAS.

Question 18 score: 1.25 point out of 2 points

Question 19: Where an investigation into fraud takes place do reports cover identified policy and systems weaknesses?

- 5.70 The reviewer found evidence that this does happen, however, the scope of the investigations undertaken by the CFT is limited (as discussed above). The reviewer also found evidence of service areas directly trying to learn the lessons from what has happened during an adverse event. Both are important to making the required changes.

Question 19 score: 1 point out of 1 point

Detection

- 5.71 Action to detect fraud is essential and, where it is effective, this can considerably enhance the deterrent effect.

Question 20: Does the organisation have a formal or informal policy setting out how it tries to detect possible fraud?

- 5.72 The reviewer found that there is no formal policy concerning work to detect fraud but there is an informal understanding of the work that needs to be undertaken. Proactive work has been taken forward concerning benefit fraud, in partnership with the DWP. In terms of non-benefit fraud, the reviewer was informed that this has happened but 'on request', rather than in accordance with a formal or informal policy..

Question 20 score: 1.5 point out of 2 points

Question 21: Are analytical intelligence (AI) techniques used to examine data and identify potential fraud and corruption?

- 5.73 In terms of benefit fraud, AI techniques identify fraud via the externally run Housing Benefit Matching Service (HBMS) and Generalised Matching Service (GMS), as well as the Audit Commission's National Fraud Initiative (NFI).
- 5.74 Internally, Medway has run its own exercise on tenancy fraud and has the capacity to undertake such work as required. This is a positive position. However, best practice suggests the likelihood of detection would be enhanced if the Council had its own programme of data analytics targeting areas where cases of fraud have emerged.

Question 21 score: 0.75 points out of 1 point

Investigation

- 5.75 Most investigative work is undertaken by the CFT which has developed a specialist and experienced investigative capacity as a result of its work focussing on benefit fraud. This expertise has gradually been used more extensively on other types of fraud affecting the Council (as discussed above).
- 5.76 The reviewer noted the high number of benefit fraud cases which are currently being taken forward as prosecutions and believes that the expertise of the CFT could be put to greater use within the Council.

Question 22: Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?

- 5.77 Cases of benefit fraud are reported to the CFT which has the remit to investigate them. The reviewer was informed that cases of non-benefit fraud are reported to the Section 151 officer or the Monitoring Officer. This happens in a timely way.

Question 22 score: 1 point out of 1 point

Question 23: Is the organisation's investigation work carried out in accordance with clear guidance?

- 5.78 Specific national guidance is followed in undertaking investigations into suspicions of benefit fraud. This compliments the common understanding of those members of the CFT, based on considerable investigative experience. Where suspicions arise in non-benefit fraud areas, there is no documented guidance as yet, but where the CFT is involved, it follows best practice derived from its core benefit fraud work. One interviewee also cited the CIPFA Audit Manual as a source of guidance.

Question 23 score: 0.5 point out of 1 point

Question 24: Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?

- 5.79 Taking action of the conclusions highlighted in the previous paragraphs, those undertaking investigations have necessary powers, although the needs in this area continually develop and the available powers do not always reflect these developments as quickly as they might do.

Question 24 score: 1 point out of 1 point

Sanctions

- 5.80 There is evidence of widespread application of sanctions where benefit fraud has taken place, but not in respect of other areas of fraud. However, the reviewer found evidence of a clear understanding of the importance of sanctions as a means of strengthening the deterrent effect.

Question 25: Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?

- 5.81 The reviewer found evidence of a clear Medway Council Sanctions Policy concerning welfare benefits fraud. It is also properly aligned to other types of counter fraud work (e.g. to prevent and detect fraud).
- 5.82 However, the reviewer did not find evidence of such a clear policy in respect of non-benefits fraud. The position regarding disciplinary action concerning fraud is clear in policy terms but disciplinary outcomes vary and some interviewees were not satisfied that everything that should have been done had been done, in respect of particular cases.

Question 25 score: 1 point out of 2 points

Question 26: Are all possible sanctions - disciplinary / regulatory, civil and criminal – considered

- 5.83 The Council considers the application of disciplinary and criminal sanctions where fraud is believed to be present. There is much less awareness of the benefits of civil litigation to recover losses, and of how this can be undertaken on a cost-effective basis. This reflects the prevailing position across the public sector.

Question 26 score: 0.5 points out of 1 point

Seeking redress

Question 27: Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?

- 5.84 The reviewer found some evidence that the Council seeks to recover losses where this is feasible. However, there is no written statement of policy in this respect.

Question 27 score: 1 point out of 2 points

Question 28: Does the organisation use the criminal and civil law to the full in recovering losses?

- 5.85 The reviewer was informed by the Director of Finance that Medway would do this where appropriate and beneficial,. However, a specific case has yet to occur where Question 28 score criminal and civil law has been combined in this way.

Question 28 score: 1 point out of 1 point

Measuring; identifying and delivering results

- 5.86 The Council has arrangements in place to limit fraud losses by reactive work to detect, investigate and apply sanctions. Reputational damage resulting from individual cases of fraud can therefore be limited. However, at this stage of development of its counter fraud work, it has yet to develop an effective pre-emptive capacity to reduce fraud losses and to deliver the real financial benefits (and multiple return on costs) which are achievable.

Question 29: Does the organisation regularly review the effectiveness of its counter fraud work against agreed performance indicators?

- 5.87 Regular summary reports about benefit fraud are considered corporately. However, as with other areas considered by this review, this is not the case concerning non-benefit fraud. While every investigated non-benefit fraud irregularity is reported to the Audit Committee, it would also be beneficial for regular summaries of non-benefit fraud activity to be provided and discussed.
- 5.88 Reflecting comments made in other sections of this report, it is felt that with more clearly defined corporate objectives and a more effective Council-wide approach to combating fraud, performance indicators could be developed to provide greater transparency about performance.

Question 29 score: 1.5 points out of 3 points

6 Overall Rating

- 6.1 The overall rating for Medway, applying the methodology tested across hundreds of other organisations, is 31 points from a total of 50 points available. Medway is therefore placed 211th out of 268 public sector organisations where fraud resilience data is held. This is in the worst quartile.
- 6.2 The breakdown of the rating by different areas is revealing and should inform the future development of the Council's anti-fraud work, as shown below.

| Area | Maximum Points Available | Medway Score |
|---|--------------------------|--------------|
| Designing and implementing a strategy which is tailored to address fraud | 6 | 4 |
| Understanding the nature and cost of fraud as a business problem , | 4 | 1.75 |
| Maintaining a structure which can implement this strategy successfully | 13 | 8 |
| Using the structure to take a range of pre-emptive action , | 12 | 5.5 |
| Using the structure to take a range of reactive action , | 12 | 10.25 |
| Measuring; identifying and delivering results | 3 | 1.5 |
| Total | 50 | 31 |

- 6.3 This overall, and individual scores, should be prioritised for the Council to review progress in the development of its counter fraud work.

7 The Reviewer

- 7.1 The reviewer was Jim Gee, PKF's Director of Counter Fraud Services and Chair of the Centre for Counter Fraud Studies at University of Portsmouth. Jim is an Accredited Counter Fraud Specialist and has a long track record of working at the highest levels, both advising Governments and delivering counter fraud services for public sector bodies and private companies across more than 30 countries.

Appendix 1 Action Plan

| Ref. | Recommendation | Management Response | Priority | Due Date |
|------|--|---------------------|----------|----------|
| R1 | Undertake work to develop a concise document explaining Medway's objectives to reduce fraud, the damage that fraud can do to the organisation, how the Council intends addressing the problem and the benefits which will arise from this. This strategic document needs to be framed in such a way as to allow effective communication of its key messages to all staff and citizens, in order to maximise the extent to which they collectively protect the Council against fraud. | | | |
| R2 | Undertake work to accurately measure the nature and scale of its losses, commencing in a non-benefits area of expenditure where experience shows that the risk may be highest and the financial benefits to be achieved from reducing fraud may be greatest, for example, procurement and supplies and payroll. | | | |
| R3 | Urgently consider how the Council can create a corporate anti-fraud function which can coordinate this work across the Council; this consideration should aim to build a stronger central resource to compliment the existing good work which is undertaken in different service areas. | | | |

| Ref. | Findings | Recommendations | Priority | Due Date |
|------|---|-----------------|----------|----------|
| R4 | Design a clear programme of work to develop a stronger anti-fraud culture building on, and extending the fraud awareness training for staff. This should seek to mobilise the honest majority, deploying messages which resonate with the Council's culture and utilising a wide range of effective communication techniques; this programme should specify consistent work to take place in the short, medium and long term. | | | |
| R5 | Design a clear programme of work to create a stronger deterrent effect so as to deter the dishonest minority, deploying messages which focus on the strength of peer group pressure against fraud, the likelihood of detection, the professional nature of any consequent investigation, and the likelihood of disciplinary and criminal sanctions being applied. A wide range of effective communication techniques should be utilised and this programme should specify consistent work to take place in the short, medium and long term. | | | |
| R6 | Undertake work to develop medium term key performance indicators, for Council-wide counter fraud work, which can form the basis for regular corporate discussions and enable the quantification of the results which are delivered. | | | |

Appendix 2 Scoring matrix and officers interviewed

Scoring Matrix

| Question | Maximum Score | Question | Maximum Score | Question | Maximum Score | Question | Maximum Score |
|----------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|
| 1 | 3 | 9 | 3 | 17 | 0.5 to 3 | 25 | 2 |
| 2 | 1 | 10 | 1 | 18 | 2 | 26 | 1 |
| 3 | 2 | 11 | 1 | 19 | 1 | 27 | 2 |
| 4 | 2 | 12 | 4 | 20 | 2 | 28 | 1 |
| 5 | 1 | 13 | 2 | 21 | 1 | 29 | 3 |
| 6 | 1 | 14 | 1 | 22 | 1 | | |
| 7 | 3 | 15 | 1 | 23 | 1 | | |
| 8 | 1 | 16 | 2 | 24 | 1 | | |

Officers interviewed

| | | | |
|-------------------|---|-------------------|---|
| Paul Arkwright | Investigation Officer | Jason Blackwell | Senior Benefits Officer |
| Marc Blowers | Head of Performance and Service Improvement | Mark Cayzer | Senior Investigation Officer |
| Ralph Edwards | Head of Human Resources | Martin Garlick | Head of Customer First and Libraries |
| Chris Gell | Client Financial Service Manager | Mick Hayward | Chief Finance Officer |
| Adrian Hipkins | ICT Business Development Manager | Philip Honeybone- | Principal Auditor |
| Cllr Alan Jarrett | Deputy Leader | Andy King | Senior Council Tax Administration Officer |
| John Law | Insurance Technician | Jane Love | Commissioning and Service Improvement |
| Graham Matthews | Principal Auditor | Susan Pledger | Private Sector Housing Manager |
| Cathryn Tateson | Investigation Officer | Gary Thomas | Principal Officer, Systems Control |
| Deborah Upton | Monitoring Officer | Janice Watts | Investigations Manager |
| Jeanette Watts | Investigation Officer | | |

Fraud Awareness and Resilience Evaluation and Action Plan

| Risk | Current Controls | Action | Date | PKF | Update |
|---|--|--|-------------|-----------------|--|
| Fraud strategy not in place, insufficient or not effectively communicated – lack of fraud awareness | Fraud Policy in constitution Fraud Policy on web Fraud reported to Audit Committee Whistleblowing policy on web and part of induction pack training Sanction Policy in place | <ol style="list-style-type: none"> 1. Revise fraud policy and include a fraud statement 2. Fraud statement in Staff Handbook 3. Develop fraud response plan (including preliminary review process, sanctions and deterrents and HR protocol and preventative measures) 4. Consider launch of new statement timetable to support the National Fraud Authority output for “Fighting Fraud Locally” 5. Fraud Risk reported as part of Risk Management process 6. Ensure fraud awareness is built into HR training 7. Ensure key fraud risk areas are aware of potential for fraud risks through Audit Services led meetings – e.g. payroll and procurement and benefits – using national stats as appropriate to highlight issue | Dec | PKF Rec 1 and 4 | <ol style="list-style-type: none"> 1. Draft 2. Draft 3. Draft 4. o/s 5. o/s 6. In progress 7. In progress |
| Lack of structure for addressing corporate fraud | CFO CFT Audit Services Audit Committee | <ol style="list-style-type: none"> 1. Review process for ensuring Monitoring Officer and CFO are informed of all financially related whistleblowing cases 2. Review whistleblowing policy to ensure it is clear when the policy is invoked 3. Roll out senior management awareness of the criteria for whistleblowing 4. Integrate and clarify fraud identification and investigation within Audit Services 5. Build into the fraud investigation process a preliminary review with a clear decision point before significant resources utilised | Dec | PKF Rec 3 and 4 | <ol style="list-style-type: none"> 1. In progress 2. In progress 3. o/s 4. In progress 5. In progress |

| Risk | Current Controls | Action | Date | PKF | Update |
|---|--|---|-------------|-----------------|--|
| Lack of Medway-wide fraud data and assessment of fraud risk | Realised fraud reported Fraud risk assessed as part of IA Annual Plan Risk Assessment performed in 2008 by IA | <p>The plan of action includes a review of data and information in key fraud risk areas in order to determine the level of fraud risk, and the resources required to detect, investigate and apply sanctions in each of the areas.</p> <p>The areas identified to be focused on in this exercise are:</p> <ul style="list-style-type: none"> • Council Tax – Single Person Discount • Blue Badges • Payroll • Vetting • Grants • Contracts <p>Procurement is not included in this first round of reviews due to the ongoing review of procurement procedures and the introduction of category management under the 'Better for less' initiative. However, it is intended that we work with Procurement to ensure that fraud risk is considered and where possible designed out of the new processes</p> | Mar 2012 | PKF Rec 2 and 6 | Initial work undertaken in relation to Blue Badges and vetting Liaison with Procurement ongoing |
| Insufficient proactive identification of irregularities and fraud | NFI etc | <ol style="list-style-type: none"> 1. Process and responsibility for analytical work within Audit Services reviewed – possibly allocate auditor post to analytical work and continuous auditing 2. Process for collating information on fraud vulnerability used to inform where to focus Audit Services resources and what approach would be appropriate 3. Increase IA presence in development of processes, project assurance etc to raise fraud awareness and design out fraud risk wherever possible | Mar 2012 | PKF Rec 3 | <ol style="list-style-type: none"> 1. In progress 2. In progress 3. Undertaking development work in relation to Waste Management and awaiting involvement in project for development of replacement to Care Director. |

| Risk | Current Controls | Action | Date | PKF | Update |
|--|---|---|-----------------------------------|------------|---|
| Audit Services have insufficient profile in organisation | Annual Planning meetings Report on strategy and delivery to AudC | 1. Website presence 2. Audit Terms of Reference 3. Fraud awareness training provided by Audit Services – look into possibility of rolling out e-learning | Oct Mar 2012 Mar 2012 | PKF Rec 5 | 1. Website in progress – will go live March 2012 once planned fraud risk assessment work completed 2. Not started 3. E-learning package reviewed. Also providing presentations to Schools on key controls to mitigate the risk of fraud |
| No effective process for raising concerns to CFT of benefit frauds | Hotline Dedicated contact point in the Counter Fraud Team | 1. Look into website referrals process | Dec | N/a | 1. Not started |
| Resources within Audit Services not focused on appropriate areas | CFT risk assess each referral on basis of likelihood of positive outcome Internal Audit assess fraud risk against identified audit universe as part of annual planning process | 1. Outcome of review of fraud vulnerability used to inform decisions on use of limited resources 2. Analytical information/continuous auditing should be used to help focus resources effectively 3. Ensure clarity over role of Internal Audit in dealing with findings from analytical data requiring further investigation 4. Clarify scope of work of CFT re non-benefit fraud | Mar 2012 | N/a | 1. In progress. Meetings with Procurement, Customer First (regarding Blue Badges), Better for Less, HR re fraud risk 2. Reviewing options 3. Not started 4. In progress |

| Risk | Current Controls | Action | Date | PKF | Update |
|---|--|---|-------------|------------|--|
| Lack of appropriate resources to undertake external fraud investigations | Counter Fraud Team has experience and qualification | <ol style="list-style-type: none"> 1. Audit Services Manager to complete professional investigative practice qualification 2. Evaluation of resources required following review of Authority's vulnerability to fraud | Mar 2012 | N/a | <ol style="list-style-type: none"> 1. Training booked for March 2012 2. In progress |
| Lack of appropriate resources to undertake internal irregularity investigations | Counter Fraud Team Qualified and experienced Internal Audit Team | <ol style="list-style-type: none"> 1. Evaluate impact on IA Plan 2. Identify optimum balance of IA and CF in investigating internal irregularities 3. Protocol with HR | Mar 2012 | Rec 3 | <ol style="list-style-type: none"> 1. Ongoing 2. In progress 3. In progress |
| Control weaknesses identified by Internal Audit not addressed | Action Plans agreed Follow ups performed | <ol style="list-style-type: none"> 1. Formalisation of follow up process including reporting to AudC and building in an escalation process | Sep | N/a | <ol style="list-style-type: none"> 1. Completed |
| Review of internal fraud is lengthy, disruptive to Internal Audit delivery and disruptive for management and HR | | Protocol with HR to be developed | Dec | N/a | <ol style="list-style-type: none"> 1. In progress |
| Failure to comply with legislative requirements | Knowledge and experience of CF and Internal Audit team Medway DPA and RIPA policy | Audit Services Manager to be trained and confirmed as a RIPA Authorising Officer | Nov | N/a | <ol style="list-style-type: none"> 1. Training Course planned for December 2011 |

Options Paper for the inclusion of Local Authority Benefit Fraud Investigation Teams in the Single Fraud Investigation Service

1. Purpose of the Paper

1.1 The coalition government's strategy for tackling welfare fraud and error, published in October 2010, set out a commitment to create a single fraud investigation service (SFIS) to investigate benefit and Tax Credit fraud. This commitment will be achieved by bringing together investigation staff from Local Authorities (LA), Department for Work and Pensions (DWP) and Her Majesties Revenues and Customs (HMRC).

1.2 This paper:

- focuses on options for including LA benefit fraud investigation teams within SFIS,
- the criteria by which DWP has measured each option
- the initial DWP analysis
- seeks your views on the options.

1.3 This paper **does not** consider the costs to the public purse of each option, nor does it consider how each option would be funded. However, the Government does not intend the creation of the Single Fraud Investigation Service to put pressure on local government finances, in line with the new burdens doctrine. The Government will therefore work with local authorities to assess the net impact of any changes, including the transitional costs of moving to the new arrangements.

1.4 Since October 2010 the department has engaged closely with LA representatives and benefit and tax credit fraud practitioners around the country to understand the challenges involved with designing SFIS. Responses to this engagement exercise will inform further work and DWP will continue to consult on proposals once they are more fully formed.

1.5 The options within the paper have been developed from that engagement and seek to address some of the key issues identified.

1.6 A key concern and driver from LAs has been the need for a clear direction regarding the creation of SFIS by Autumn 2011 to inform the financial and planning rounds. The work on the options has been prioritised to meet that need with a view to confirming the position in November.

1.7 In developing these options consideration has been given to the wider LA fraud strategy being developed in conjunction with Department for Communities and Local Government and the National Fraud Authority and LA capacity to deal with other fraud. At Spending Review 2010 the Government announced that it would localise support for council tax from April 2013. On 2

August 2011 DCLG published its consultation, Localising Support for Council Tax in England, which set out proposals on key elements of a framework for local support for council tax, and is seeking views on all aspects of the proposed approach, including the investigation of fraud.

2. Why a Single Fraud Investigation Service?

2.1 The current investigation arrangements mirror the existing disparate welfare provision with DWP investigators covering DWP administered benefits, local authority investigators covering Housing and Council Tax Benefits fraud, and HMRC responsible for investigating Tax Credits fraud. This has resulted in variations in policy, practice and operational responsiveness.

2.2 In addition, due to the large overlap in the customer base across these benefits and credits, fraud affecting one benefit/credit can also affect those administered by the other parties. This, therefore, requires duplication of investigation resources in order to tackle all such frauds simultaneously. In practice, however, there are frequently gaps in investigation coverage or resource which mean that not all frauds being committed by the same customer are tackled effectively.

2.3 Measures in the Welfare Reform Bill represent the biggest change to the welfare system for over 60 years. The creation of a Universal Credit to replace benefits and Tax Credits for people of working age provides the opportunity to take a fresh look at welfare fraud investigation and address the inefficiencies in the current arrangements.

2.4 It follows that a single Universal Credit system should be supported by a single fraud investigation force, but the impact of such a force in tackling welfare fraud would be considerably diminished if we continued with the current disparate and inefficient arrangements for legacy benefits fraud investigation. That is why, in 2013, we plan to introduce a new Single Fraud Investigation Service for all welfare fraud. This will improve efficiency and consistency.

2.5 People will begin to claim Universal Credit from 2013 with a full migration of legacy claims and transition to the new service being achieved by 2017. In considering options for developing SFIS it makes sense therefore for those options to take into account the gradual design of the full service delivery of Universal Credit in 2017. A clearer understanding of the service is expected to be available from 2015.

4. The Options

4.1 This section outlines the possible options for LA staff joining SFIS. They **do not** describe the design or implementation of SFIS overall. In addition, LA staff are not protected from any future changes to SFIS resource requirements.

4.2 There are four options. The first two relate to LA staff remaining LA employees, while the second two relate to LA staff becoming employees of DWP.

Option 1. LA staff remain employed by LAs, but operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under a procedural change. By leaving employment and location unchanged this option would allow LAs the flexibility to redeploy resource to meet other LA priorities if required.

Option 2. LA staff remain employed by LAs in LA estate but are seconded to the DWP - this option means all LA investigation staff remain LA employees based in LA estate under formal secondment to DWP and operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under both management and procedural changes. This option would allow LAs a degree of flexibility to recall and redeploy resource to meet other LA priorities, under the terms of the secondment agreement if required.

Option 3. LA staff become DWP employees but deliver investigation locally from the LA estate - this option means all LA investigation staff become DWP employees based in LA estate and operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under both management and procedural changes.

Option 4. LA staff become part of the DWP working within DWP estate as employees - this option means all LA investigation staff become DWP employees based in DWP estate and operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under both management and procedural changes.

5. Evaluation Criteria

5.1 In order to assess the relative advantages and disadvantages of the options, each one will be assessed using the following criteria. In order to inform this paper DWP have considered the top five criteria for each option to provide a summary DWP decision. There is also a paragraph which mentions other factors that exist for options individually.

- **Legality:** Are there any legal restrictions or limitations between the options? Do we have existing legal powers or will the Welfare Reform Bill provide the powers?
- **Cost / Financial Implications:** Not yet considered – see paragraph 1.3.
- **Viability:** How achievable is delivery of the option within the proposed timescales for SFIS?
- **People impact:** Does the option require transfer of employee or changes to terms and conditions? How much training will be needed if job roles change, skills need development?

- **Fraud and Error Strategic fit:** Does the option support or detract in any way from the strategic objectives of the fraud and error programme? Does it meet the specific SFIS objectives?
- **Operational impact:** What does the option mean to operational performance and operational capacity to absorb change?
- **Estates impact:** How easy or complex is each option in terms of integrating the LA estate into a single SFIS organisation?
- **IT Changes:** Does the option provide a simpler or more complex IT requirement to implement? Could existing IT be enhanced to meet the proposed solution or is new IT system required?
- **Capacity of LA to deal with other Fraud:** Does the option enable LA staff to continue to undertake other LA fraud activity as well as Housing Benefit Fraud?
- **Future Proofing:** Does the option fit with the wider organisational changes around Local Government or Universal Credit implementation?
- **Ministerial impact:** Does the option meet the expectations of Ministers and Government? Are there any wider political implications with the proposed option?
- **Economic climate considerations:** Is the option consistent with the wider economic climate i.e. reductions in the size of the public sector?

6. Option 1: LA staff remain employed by LAs, but operate under SFIS powers, policies, processes and priorities.

6.1 This option means that all LA investigators employed exclusively on benefit fraud remain LA employees based in LA estate but operate under SFIS powers, policies, processes and priorities. Under the Welfare Reform Bill SFIS investigators will have wider investigative powers. The investigation and prosecution policy will be the same for all welfare benefit fraud. SFIS operational processes will be agreed by 2013. This option brings LA investigation staff into SFIS under a procedural change. By leaving employment and location unchanged this option would allow LAs the flexibility to redeploy resource to meet other LA priorities.

Legality – option 1 utilises existing powers for investigation but work needs to be done on the Tax Credit element of investigations.

Cost / Financial implication – initial estimates are that costs would lower but new burdens implications need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance

Viability – this option is achievable by 2013 as the status quo remains in place until the decisions regarding Universal Credit are taken. It would work well in line with the localism agenda, supporting flexibility for LAs to deal with Council Tax support and other LA fraud, and allowing local knowledge to remain in the hands of the investigators.

People Impact – terms and conditions, locations and skills sets remain static but only until the organisation of Universal Credit is decided.

6.2 A key consideration for LAs, over and above the stability gained by maintaining the status quo, is that LAs retain their qualified staff who will be able to investigate Tax Credit fraud once the SFIS powers are implemented and there should also be flexibility to redeploy resource to other LA priorities.

7 Option 2: LA staff remain in LA estate employed by LA and are formally seconded to SFIS.

7.1 This option means all LA investigators employed full time on housing benefit fraud remain LA employees based in LA estate under formal secondment to DWP and operate under SFIS powers, policies, processes and priorities. This brings LA investigation staff into SFIS under both management and procedural changes. This option would allow LAs a degree of flexibility to recall and redeploy resource to meet other LA priorities, under the terms of the secondment agreement.

Legality – utilises seconded staff who take on the same powers as DWP staff. DWP have existing powers for investigation which have been enhanced to cover Tax Credit investigations as part of the Welfare Reform Bill.

Cost / Financial Risk – new burdens costs would need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance.

Viability – secondment arrangements may be difficult to implement and sustain over long periods.

People Impact – staff will be expected to remain with the same employer but work to DWP policies and procedures. This can cause tensions within the workplace. Further long term secondments may be difficult to maintain and do not offer staff security.

Fraud & Error Strategic Fit – although it fits with the fraud and error strategy, it only does so with potentially time limited secondment arrangements.

7.1 Other key things to consider for this option are: that it enables central control of operations and outputs yet allows the delivery of investigation services locally.

7.2 Key considerations for LAs are that the management and measurement of work and outputs, and of staff handling and responsibility during this period would need to be agreed and implemented. It would not necessarily be as easy for SFIS staff in LA estate to investigate other LA fraud as staff are seconded to DWP, although there is the flexibility of LAs to recall and redeploy their staff to other LA duties under the terms of the secondment agreement.

8 Option 3: LA staff become DWP employees but deliver investigation locally from the LA estate.

8.1 This option supports investigations to be directed by the SFIS powers, policies, processes and priorities. It also has the advantages of allowing LA investigators employed full time on housing benefit fraud to remain in their existing estate and link more closely with other parts of the local authority to combat other fraud.

Legality – brings all staff together as DWP employees. DWP have existing powers for investigation which have been enhanced to cover Tax Credit investigations as part of the Welfare Reform Bill.

Cost / Financial Risk – new burdens costs would need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance. .

Viability – the HR work required by DWP to transfer LA staff to DWP is challenging and may not be achievable by 2013.

People Impact – the changes will lead to a great deal of uncertainty, with work required to align salaries, allowances and management activity.

Fraud & Error Strategic Fit – it mirrors the requirements of the strategy and allows a single management structure with common IT and investigation processes. However as LA and other SFIS teams are not co-located there is the risk of a loss of efficiency.

8.2 Key considerations for LA include the potential cost of estate hosting and the loss of trained LA staff to consider other LA fraud.

9 Option 4: LA staff become part of the DWP working within DWP estate as employees.

9.1 This option aligns people, processes, IT systems and estate. It enables flexibility and prioritisation by type of fraud, geographical location and areas of greatest loss.

Legality – has all staff co-located together as DWP employees. DWP have existing powers for investigation which have been enhanced to cover Tax Credit investigations as part of the Welfare Reform Bill.

Cost / Financial Risk – new burdens costs would need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance.

Viability – option 4 is unlikely to meet delivery of SFIS by 2013, owing to the HR and estates work required.

People Impact – Salaries, pensions, local allowances, vehicles, equipment and moving location will all be a considerable source of concern and uncertainty for the staff involved.

Fraud & Error Strategic Fit – it mirrors the requirements of the strategy and allows a single management structure with common IT and investigation processes

9.2 Other key things to consider are: that it provides swift resolution and some certainty of SFIS outcome for staff. There would be some issues around the accountabilities for Section 151 officers; and it is not flexible enough to respond to the changing environment. From a DWP viewpoint this is the costliest and riskiest option.

9.3 Key considerations for LAs are the risks around Section 151 officer responsibilities, the loss of key trained staff, the impact on the localism agenda and the consideration of other LA fraud investigation

8 DWP Option Evaluation

| Criteria | <u>Option 1</u> LA staff remain employed by LAs, but operate under SFIS powers, policies, processes and priorities | <u>Option 2</u> LA staff remain in LA estate employed by LA and are formally seconded to SFIS | <u>Option 3</u> LA staff become DWP employees but deliver investigation locally from the LA estate. | <u>Option 4</u> LA staff become part of the DWP working within DWP estate as employees. |
|--------------------|---|--|--|---|
| 1. Legality | Powers already exist to allow LA staff to investigate and prosecute benefit fraud. . | Staff seconded take the same powers afforded to DWP. DWP powers exist and have been enhanced to cover Tax Credit Investigations under Welfare Reform | DWP powers exist and have been enhanced to cover Tax Credit Investigations under Welfare Reform | DWP powers exist and have been enhanced to cover Tax Credit Investigations under Welfare Reform |

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|---|--|---|--|--|
| 2. Cost and Financial Implications | initial estimates are that costs would be lower but new burdens implications need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance | new burdens costs would need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance. | new burdens costs would need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance. | new burdens costs would need to be fully evaluated after responses were considered and impacted alongside other changes being made in local government finance. |
| 3. Viability | Achievable by 2013. LA staff remain with same employer and the focus is on integrating investigator roles into SFIS with minimum change | Achievable by 2013. LA staff remain with same employer and the focus is on integrating investigator roles into SFIS. However, secondment arrangements may be difficult to sustain long term. | Delivery by 2013 more challenging as the HR work to enable LA staff to become DWP employees will be significant. | Delivery by 2013 unlikely to be achieved. Combining the HR work to enable LA staff to become DWP employees and moving staff to the DWP estate would be very expensive. |
| 4. People impact | Staff remain in LA employment but this is subject to review once the organisation of Universal Credit is determined. Changes to job roles, skills if LA staff do a wider set of benefit investigations. However, until then, the option provides a degree of stability and minimises disruption. | LA staff remain with the same employer but work to DWP policy and procedures. This will provide a level of consistency across all LA staff but there may be issues with the secondment arrangements if these are long term. | LA staff change terms and conditions which will generate a great deal of uncertainty. Salaries for similar roles will be different as well as pensions and local allowances for cars, transport. | LA staff change terms and conditions which will generate a great deal of uncertainty. Salaries for similar roles will be different as well as pensions and local allowances for cars, transport. Moving locations will also generate issues for some staff e.g. extra transport costs, domestic and family or child care related issues. |

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|---|---|--|--|--|
| 5. Fit with Fraud and Error Strategy | Enables a single SFIS to be established that meets policy intent and a degree of flexibility for future integration with the Universal Credit organisational design. Control over meeting SFIS objectives not as strong as other options. | Fits with F&E strategy as there is increased control to direct priorities. However, the secondment arrangements would need to be managed closely if over a longer term as competing LA priorities may overtake those of SFIS | Provides a single integrated SFIS organisation with team co-located. Would enable a single management structure and organisation with common processes and IT. | Provides a single integrated SFIS organisation with team co-located. Would enable a single management structure and organisation with common processes and IT. |
| Operational Risk | Potential impact on performance during transition to the Universal Credit model. | Potential impact on performance and need to merge processes for DWP/HMRC but LA processes largely the same. | Potential impact on performance and need to merge investigation into one model. More difficult to manage if not co-located. | Potential impact on performance and need to merge investigation processes from FIS/HMRC/LA into one model. |
| Estates analysis | Initially leaves LA investigators in LA Estate. Changes following introduction of Universal Credit not yet determined. | Leaves LA investigators in current estate so no additional cost. | Leaves LA investigators in current estate but LA may charge for the utilised space. | Integration with DWP Estate strategy required to establish how feasible it is to combine LA and DWP investigation teams. Likely capacity issues as well as high costs. |

| | | | | |
|---|---|---|--|--|
| IT issues | LA staff still access existing IT. Integration of current IT could be complex but further evaluation required on new IT system or linking existing systems. | LA's continue to use existing IT from within the LA Estate but sharing of information will be limited long term. | Complex issues over access to IT systems for HB/CTB. New or significantly changed IT needed for a fully integrated SFIS service in LA and DWP estate. | LA staff integrated into single IT infrastructure but complex issues over access to IT systems for Housing Benefit /Council Tax Benefit. New or significantly changed IT needed for a fully integrated SFIS service. |
| Impact on LA ability to deal with other fraud activity | LA staff remain under LA control until Universal Credit organisation decided when control may be lost. | LA staff remain under control of LA and can direct/prioritise resources as required. | LA staff move to DWP organisation and leave other LA fraud behind. | LA staff move to DWP organisation and leave other LA fraud behind |
| Future Proofing | Enables decisions on the future design of SFIS to dovetail with decisions on the organisational design of Universal Credit in 2015. | LA staff can be seconded to DWP from 2013 but the arrangements could present issues once decisions are made about the Universal Credit organisation | Taking a decision now to enable LA employees to become employees of DWP could prejudice the options for integration with the Universal Credit organisation by 2015. Future resource needs could be more difficult to manage. | Some risk relating to changing employer to DWP prior to UC decisions plus potentially tied into long term estate capacity and costs for co-location of LA staff with DWP staff. |
| Ministerial impact | delivers a single SFIS policy and allows LA staff to be integrated into SFIS with minimum disruption. | delivers a single SFIS policy and gives DWP more control over setting targets and priorities. | Potential for loss of capability of those who join DWP and this impacts the ability of SFIS to operate effectively. | Loss of capability enhanced if LA staff are unable to move to DWP locations. Ability to operate SFIS effectively could be severely compromised. |

| | | | | |
|-------------------------|--|--|---|---|
| Economic Climate | Does not conflict with the pressure to reduce the size of the public sector as current LA employees remain with the relevant LA's. | Does not conflict with the pressure to reduce the size of the public sector as current LA employees remain with the relevant LA's. | Increase in number of Civil Servants is inconsistent with the general pressure to reduce the size of the public sector. Perception increased by recruitment of an additional 200 investigators. | Increase in number of Civil Servants is inconsistent with the general pressure to reduce the size of the public sector. Also adds to the cost of the DWP estate to house the extra civil servants |
|-------------------------|--|--|---|---|

9. Your Views

9.1 Your input is sought to inform the final preferred option, and help to identify further issues, gaps and risks. This document will be circulated to LA Chief Executives and other key stakeholders followed by a series of further discussion opportunities including presentations at various events, teleconferences and articles in relevant publications. The letter to Chief Executives will be highlighted in HB Direct and online publications to LA staff.

9.2 DWP will then provide a summary response of the feedback received. The ultimate decision on which option is chosen will be made by Minister.

9.3 This paper and the subsequent decision does not predetermine the overall design of the SFIS, which will be developed collaboratively by DWP, HMRC and LAs. This paper does provide you with the opportunity to influence how LA staff can most effectively become part of the new SFIS service from 2013.

9.4 The project team aims to run a series of consultation opportunities to discuss it and deal with questions from your teams. This will include face to face presentation sessions at:

- IRRV NATIONAL – 20/09/11 – 22/09/11
- IRRV Yorkshire & Humberside – 23/09/11
- IRRV Northern Counties – 26/09/11
- IRRV North Wales & North West – 29/09/11

9.5 The Department will run a further series of engagement events after the paper is distributed as well as telekits and discussion opportunities as appropriate during the consultation period. The Department will continue to engagement with Local Government throughout the process of designing and implementing the SFIS.

9.5 The Department will analyse your responses and the feedback from the governance process and produce a summary report which will be shared.

Unfortunately there can be no response to individual comments, or comments received later than 14/10/11.

9.6 There is a proforma attached which asks some questions about the options. Please respond to SFIS.GOVERNANCE@DWP.GSI.GOV.UK no later than the 14th October 2011.

Options consultation on LA staff becoming part of Single Fraud Investigation Service (SFIS)

Many thanks for agreeing to share your views on our consultation on the options for LA staff to become part of Single Fraud Investigation Service. **The survey includes a variety of questions – please disregard any you do not feel are not relevant.**

We would like a single coordinated response from each Local Authority. Please ensure that your response first goes to the relevant officer. A restricted mailbox has been chosen to return the forms to and identity information will not be retained, with emails deleted once information has been captured.

Information will be managed and retained in accordance with Data Protection principles.

If you wish to provide additional information related to your response, a free text box is included at the end of the questionnaire. Alternatively, a separate email can be sent to

SFIS.GOVERNANCE@DWP.GSI.GOV.UK

Please note that we cannot reply to individual responses, and that responses received after 14/10/11 will not be accepted or fed into the consultation.

1 Which Local Authority does this co-ordinated response come from? Or if an individual response please specify.

Medway

2 Do you agree with our selection criteria? If not, please say why and if there are other criteria you think we should have considered please specify.

☒ Yes

☐ No

3 Do you feel the initial DWP options analysis is fair? If not please let us know what we have missed or not given emphasis to.

☐ Yes

☒ No

At present there are significant uncertainties relating to the introduction of Universal Credit and as such it is difficult to undertake an effective assessment of the options. Of the four options one is patently a non-runner as the DWP is not actually able to meet the deadline for Option 4. Of the remaining three options, Option 2 is not viable given the fact that it would leave the Authority's staff in an invidious position. Therefore there are in reality only two options to consider – Option 1 and Option 3.

4 Do you have a preferred option? If so which is it?

☒ Option 1

☐ Option 2

☐ Option 3

☐ Option 4

5 Why is this your preferred option / what is particularly good about it

Option 1 recognises the ongoing responsibility within the field of fraud at Local Authorities. Option 1 provides for the fact that the Authority has a wider remit for responding to fraud than just benefits. Nonetheless Option 1, as all the options, does create some issues which would need to be resolved.

6 Please provide any other feedback on the options if you wish

It is clear from the document that the DWP is going to find it difficult to meet the 2013 date for introducing new working arrangements and it would appear from the document that the DWP will not be in a position to put in place all the arrangements for the 2013 deadline and that seems to be the reason for their preference for Option 1. However there is also an indication that there is a certain level of uncertainty as to longer term arrangements which might be another reason why Option 1, where staff remain with the LA, is preferred.

Throughout the document is reference to 2015 and it is unclear on what basis this date has been selected as the two legislated dates are 2013 for the introduction of the Universal Credit and 2017 when the previous arrangements are fully phased out.

The key timing issues however are

- there is no clarity as to when the DWP will be needing to know numbers involved 100% in benefit fraud
- there is no clarity as to when individuals would have to be identified for any transition arrangements
- options that allow for LA staff to continue to be employed or work from LA sites means a continued uncertainty in planning for the future,
- how to make decisions around the way to take forward the National Fraud Authority proposals for the LA Counter Fraud Strategy with the uncertainty
- how to timetable addressing financial constraints within the Authority in light of this uncertainty

Your Name:

Alison Russell

Your Position: Audit Services Manager

Please return your completed forms to

SFIS.GOVERNANCE@DWP.GSI.GOV.UK no later than 14/10/11.

Thank you for taking the time to share your views.