

Agenda Item No: 9

Report No: 82/17

Report Title: Annual Report on the Council's work to combat Fraud and Corruption 2016/17

Report To: Audit and Standards Committee Date: 19 June 2017

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

Contact Officer

Name: David Heath

Post Title: Head of Audit and Counter Fraud

E-mail: David.Heath@lewes.gov.uk

Tel no: 01273 484157

Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2016/17.

Officers Recommendation(s):

- 1** To receive the report, and note the control measures that are in place to maintain a strong anti-fraud and corruption culture (see Section 3).
- 2** To note the structures within the Council that counter fraud and corruption, particularly the arrangements for preventing, detecting and investigating fraud across a range of Council services and activities (see Section 4).
- 3** To note the Council's involvement in national, regional and local counter fraud networks (Section 5).
- 4** To note the results of the Council's counter fraud activity during 2016/17 (Section 6).
- 5** To note the Council's compliance with CIPFA's Code of Practice on managing the risk of fraud and corruption (Section 8).
- 6** To reaffirm the Council's zero tolerance to fraud and corruption.

Reasons for Recommendations

- 1** The remit of the Audit and Standards Committee includes the duties to keep under review the probity and effectiveness of internal controls, and to monitor Council policies on Anti-Fraud and Corruption and Whistleblowing.

Information

2 Background

- 2.1** In simple terms, fraud is obtaining a financial or other gain by means of deception, dishonesty or theft. Similarly, corruption is the dishonest exercise of official duties or position on order to achieve financial or other gain, for example the receiving of gifts, rewards or favours from the misuse of information or influence.

- 2.2** In recent years, central and local government has sought to develop new initiatives to counter fraud and corruption. In recognition of these priorities the Chartered Institute of Public Finance and Accounting (CIPFA) published a Code of Practice on managing the risk of fraud and corruption. The Code emphasises that leaders of public services have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
- 2.3** The Head of Audit and Counter Fraud (HACF) has reviewed the Council's arrangements for countering fraud and corruption, and compared them to the standards and principles within the Code. This report outlines the Council's work to counter fraud and corruption in 2016/17, and how this work meets the Council's responsibilities for ensuring an effective response to these risks.
- 2.4** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The full integration of the respective Internal Audit and Fraud Investigation Teams in both councils is due to be in place by 1 July 2017. Significant progress has already been made in coordinating counter fraud activities and in sharing expertise and resources during 2016/17, and this forms the background to the activities outlined in this report.

3 Strategies and policies to counter fraud and corruption

- 3.1** The Council has a long established zero tolerance of fraud and corruption. The Council expects that Councillors and staff will act with honesty and integrity in all aspects of their official duties, and that individuals and organisations with which it comes into contact will act in the same way when dealing the Council.
- 3.2** The Council has had in place for some years a framework of formal strategies and policies in order to maintain a strong anti fraud and corruption culture. These include an Anti- Fraud and Corruption Strategy, an Anti – Money Laundering Policy, an Anti - Bribery Policy, a Whistleblowing Policy, Councillor and Officer Codes of Conduct, and an IT Security Policy. These strategies and policies are regularly reviewed and updated where appropriate.
- 3.3** The Council remains alert to the risk of fraud and corruption, and has in place a network of systems and procedures to protect its assets and services against these risks. The Council is committed to ensuring that the systems and procedures work properly and include effective internal control arrangements. Many of the controls are there specifically to prevent loss or fraud - they have been designed to help deter fraud and to give warning of possible fraudulent activity.
- 3.4** The effectiveness of the controls is independently monitored by Internal Audit, and the HACF provides regular reports to the Audit and Standards Committee on the internal control environment. HACF is reporting separately to the June 2017 meeting of the Committee that the overall standards of internal control were satisfactory during 2016/17.

4 Structures within the Council to counter fraud and corruption

Internal Audit

- 4.1** Internal Audit assesses the risk of fraud and corruption every year as part of its annual planning processes covering the Council's key systems. Up until November 2014, Internal Audit provided the main resource for the investigation of alleged cases of corporate fraud and corruption.
- 4.2** The main counter fraud body is now the Fraud Investigation Team (see below), but the placement of the team within the Audit and Counter Fraud Division has specific benefits. This arrangement facilitates the sharing of information and resources with Internal Audit, enables a greater understanding of the importance of internal controls in helping to prevent fraud across all Council services, and has created more opportunities to focus efforts on the areas of potential risk.

Fraud Investigation Team

- 4.3** The Fraud Investigation Team had previously focused solely on benefits fraud, and had undertaken a range of pro-active anti-fraud work in this area. The team had been earmarked to become part of the national Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP). In order to retain a strong counter fraud service at the Council CMT approved the team becoming part of the Audit and Counter Fraud service from 1 November 2014.

- 4.4** The Fraud Investigation Team has the following service objective:

To provide an efficient and effective Investigations Team that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

The team has unhindered access to staff, information and other resources as may be required for investigation purposes.

- 4.5** The Fraud Investigation Team is staffed to its approved level (1.5 FTE), and comprises two officers who are experienced, trained and fully accredited. The team provides resources for the prevention and detection of fraud across all areas of Council services including tenancy fraud, and business rates fraud. The Council believes that this level of staffing is commensurate with the levels of risk, but has been seeking to make more effective use of resources by drawing on the expertise of colleagues at EBC to support LDC activities in some key areas (see 4.7, 4.9, and 5.7, and 6.3).
- 4.6** The work to develop the role of the Investigations Team has been particularly successful in the relationship with Housing Services where officers from both departments work together on joint initiatives (see 6.5 to 6.9 below). In addition, Housing Services have allocated a part time post to the role of tenancy audit, which involves a rolling programme of checks on the validity of tenancies and the identity of people living in Council properties. Future planned activities with Housing Services include a joint Internal Audit/Fraud review of the housing register procedures in 2017.
- 4.7** In July 2016, the Fraud Investigation Team implemented a new regime of checks on Right to Buy (RTB) applications. The new checks were introduced in response to

issues noted in an audit of RTB carried out by the Internal Audit Manager at EBC, and as a result of research with other local authorities into fraud risks related to the RTB process. The checks are designed to prevent and detect fraud, and protect the Council against money laundering. Prior to July 2016, the Council operated no specific procedures to address potential RTB fraud. The Investigations Teams at LDC and EBC apply the same methods of checking RTBs. The teams liaise regularly to ensure the shared approach continues to reflect developing best practice.

- 4.8** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Fraud Investigation Team because of the evidence of this being a high risk area for the Council. A development priority is the creation of a similar approach for the relationship with the NDR team in Customer Services, to enable targeted checks and joint site visits to help identify business premises that are not paying the correct business rates. This approach has been trialled but requires further work.
- 4.9** The Fraud Investigation Team has continued to work with colleagues in the Benefits Team in Customer Services to counter benefit fraud, but this is in the context of a formal Service Level Agreement (SLA) with DWP for the joint management of HB fraud cases. The major work on each HB case is the responsibility of SFIS. LDC retains a liaison role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. In an agreement with the Fraud Investigation Team at EBC, a member of that team has carried out the DWP liaison work for LDC using existing EBC procedures and thus allow the LDC team to focus on case work in other areas.
- 4.10** Under Financial Procedure Rules, the Chair of the Audit and Standards Committee is informed of the outcome of investigations into significant cases of fraud and corruption. Each meeting of the Committee receives a summary report on the work of the Fraud Investigation Team.

5 Council involvement in national, regional and local counter fraud networks

National Fraud Initiative (NFI) data matching

- 5.1** The Council takes an active role in the National Fraud Initiative (NFI) data matching exercises that, until 1 April 2015, were managed by the Audit Commission. Since then, responsibility for NFI exercises rests with the Cabinet Office.
- 5.2** Internal Audit has coordinated the Council's response to the 2016/17 NFI data matching exercise. Preparations for the 2016/17 exercise began in April 2016, and the base data was forwarded to the Audit Commission in October 2016. The first matches were returned to LDC in January 2017. Further reports have been received since then and there are now over 2,000 matches detailed across 93 reports. The reports set out the potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council. Each report highlights a number of 'Recommended' matches that appeared to indicate the greatest likelihood of fraud.
- 5.3** Council services nominated officers to investigate the matches in their areas. Because the work is resource intensive, services are targeting their efforts with the initial focus on those matches that were recommended for review. The work requires

the weeding out those matches that were the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. Any suspected cases of fraud would be passed to the LDC Investigation Team for action, with any suspected cases of HB fraud referred to DWP. The exercise to investigate reported matches is at an early stage and will run until April 2018.

- 5.4** The conduct and progress of the NFI 2016/17 has been regularly reported to the Audit and Standards Committee.

National Anti-Fraud Network (NAFN)

- 5.5** The Council is signed up the National Anti-Fraud Network (NAFN). NAFN provides regular bulletins on current issues and initiatives, as well as the ability to obtain confidential information for use in fraud investigations. There are strict controls over access to this information.

Sussex counter fraud networks

- 5.6** The Investigation Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work. During 2014/15, a sub group of authorities within ESFOG, including LDC, submitted a successful funding bid to DCLG for the development of a 'Hub' approach to coordinating new counter fraud initiatives across East Sussex.
- 5.7** The Hub is managed by officers at EBC in accordance with the corporate governance arrangements of that authority, with input from ESFOG partners as appropriate. LDC has benefitted from Hub funding in the ongoing provision of training, the introduction of a shared case management system, and publicity material for the LDC campaign to counter housing tenancy fraud. Current projects include a shared approach to publicity for Hub activities and the development of an on-line system to allow the public to report suspected frauds – the Investigations Teams at EBC and LDC will use a shared web link to receive these reports. The next priorities will include a coordinated exercise to counter business rates fraud across the county, using a methodology developed with Hub partners.
- 5.8** LDC is a member of the Sussex Tenancy Fraud Forum (TFF) to enable information sharing and joint initiatives with neighbouring authorities in both East and West Sussex. Through TFF, Internal Audit and the Fraud Investigation Team are part of a national information sharing network for tenancy fraud.
- 5.9** The Head of Audit and Counter Fraud is currently the Chair of the Sussex Audit Group (SAG). The group comprises all Heads of Audit across Sussex, and circulates intelligence on current fraud issues and shares good practice in counter fraud activities. A sub committee of SAG provides the governance oversight for Hub activities.

6 Reported cases of fraud and corruption in 2016/17

- 6.1** The results of the Council's counter fraud and corruption work during 2016/17 is summarised as follows.

Corruption

- 6.2** There were no reported cases of corruption during 2016/17.

Housing Benefit fraud

- 6.3** During 2016/17 the Fraud Investigation Team continued to work closely with DWP colleagues to maintain the effectiveness of the SLA. A total of 112 HB cases were passed to SFIS via the SLA procedures, and 69 information requests were actioned, including those processed by the colleague in the Fraud Investigation Team at EBC who carries out the DWP liaison work for LDC.

Council Tax Reduction Scheme (CTRS) fraud

- 6.4** LDC retains responsibility for dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud, and administering the penalties for CTRS cases that are not subject to prosecution. The focus on housing and RTB cases (see below), have meant that CTRS cases have not been a priority. One CTRS case was investigated but was closed in February 2017, and nine CTRS cases have been closed without investigation. The amounts of the CTR invalidly claimed are being recovered by the Revenues Team but, with no investigation in most cases, the Council is unable to obtain the £50 administrative penalty (Adpen) that could result from each case.

Housing Tenancy fraud

- 6.5** During 2016/17, the work on counter tenancy fraud included monitoring best practice guidance from other authorities, maintaining effective referral arrangements with officers in LDC Housing Services, and responding to cases reported by residents.
- 6.6** A total of 18 suspected cases of tenancy fraud were referred to the team during 2016/17, to add to a number of long running cases that were reported during 2015/16. All of the 2015/16 cases were cleared by January 2017, with four properties returned to the Council's housing stock after the team had proved abandonment by the tenant. The majority of the other cases were closed because the investigations had established that there had been no fraud or abandonment. Dealing fully with these cases of property abandonment ensures unused properties are returned to the housing stock, although abandonment is not strictly fraud under the Prevention of Social Housing Fraud Act 2013. Ten cases were under investigation at the end of March 2017, including one of suspected housing application fraud.

Right to Buy (RTB) Scheme

- 6.7** Since July 2016, 58 RTB applications have been subject to the new regime of checks by the Fraud Investigation Team and 30 applications have been withdrawn after intervention by the team. Applications are withdrawn for a variety of reasons - it is not possible to say that the withdrawals indicate fraud, although in a few cases there was an initial suspicion of potential fraud when the withdrawal was made.
- 6.8** There is a debate underway on the correct way to value the results of RTB interventions/investigations. At present, the 30 RTB withdrawals at LDC are valued at £75k per application, representing an average of the purchase discounts that would have been allowed for each of the withdrawn applications. The total saving is assessed at £2.25m in discounts that were not given. Because it is not possible to

say that withdrawals indicate fraud, this is not claimed as a saving arising from the prevention of fraud. The 30 withdrawals have saved the Council approximately £9,000 from the property valuations that have not been required.

- 6.9 Two cases of suspected RTB fraud are being investigated – one involves an ongoing application.

Business Rate fraud

- 6.10 NDR is the development priority for the team, based upon some initial research, training and a small pilot study in 2016. The team will revisit the risk assessment for NDR to determine the impact of recent government announcements on NDR, and the possible effect on rate reliefs to small businesses. It is anticipated that action to counter business rate fraud will be a shared priority for the partner authorities within the East Sussex Counter Fraud Hub. Work is underway to develop a joint approach including a formal protocol to enable the sharing of NDR data across the Hub. Once in place the protocol will allow the sharing of data in the investigation of other types of fraud.

7 Council tax - Single Person Discounts (SPDs)

- 7.1 The Council has joined with other local authorities in East Sussex to employ a private sector company (Northgate) to check on the status of Single Person Discounts (SPDs) claimed by residents against their Council Tax liability. During 2016/17, the last year of the current contract with Northgate, this process identified 239 cases of SPDs to which the liable person was not entitled - the SPDs were removed without the need to prove fraud. The result has been a total increase in Council Tax collections of approximately £71,250 in 2016/17, with the cost of the Northgate service at approximately £4,400. These results compare favourably with previous years covered by the contract (242 SPDs removed in 2014/15, 28 in 2015/16).
- 7.2 The Council and the other authorities are currently engaged in a procurement exercise to determine the company that will operate the equivalent service in the years ahead.

8 Compliance with the CIPFA Code of Practice

- 8.1 In April 2016, the HACF compared the Council's arrangements to counter fraud and corruption with the principles, and specific guidance, contained in the CIPFA Code of Practice on managing the risk of fraud and corruption. The results confirmed that the Council has adopted a response that is appropriate for its fraud and corruption risks and there are adequate means to maintain its vigilance to tackle fraud. Since this review there has been nothing that would require this opinion to change. This opinion is taken to the Annual Governance Statement (AGS) that is reported separately to this meeting of the Committee.

9 Financial Appraisal

- 9.1 There are no additional financial implications from this report.

10 Risk Management Implications

- 10.1 If the Council does not operate an effective internal control environment, including an appropriate framework of strategies, policies, systems and procedures to counter

fraud and corruption, there will be reduced assurance that there are adequate means to prevent, detect and investigate irregularities and protect public funds. Without adequate measures in these areas the Council is at risk of damage to its reputation for honesty, integrity and effective management.

11 Sustainability Implications

11.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

12 Equality Screening

12.1 This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required. However, if Internal Audit note equalities issues during their work these will be raised with the Equality Officer to ensure that appropriate equality impact screening is carried out.

13 Background Papers

13.1 None.

14 Appendices

14.1 None.