

**Agenda Item No:** 8 **Report No:** 128/14

**Report Title:** Annual Report on the Council's work to combat Fraud and Corruption 2013/14

**Report To:** Audit and Standards Committee **Date:** 22 September 2014

**Ward(s) Affected:** All

**Report By:** Head of Audit and Performance

**Contact Officer**

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### **Purpose of Report:**

To inform Councillors on the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2013/14.

### **Officers Recommendation(s):**

- 1 To receive the report and note the measures that are in place to prevent fraud and corruption (see Section 3).
  - 2 To note the measures to report and investigate suspected cases of fraud and corruption (see Sections 4 and 6).
  - 3 To note the Council's involvement in national, regional and local counter fraud networks (Section 5).
  - 4 To reaffirm the Council's zero tolerance to fraud and corruption.
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### **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** The Council has a 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 individual and organisations with which it comes into contact will act in the same way when dealing the Council.

### **3 Strategies and policies to counter fraud and corruption**

- 3.1** The Council has established a framework of appropriate strategies and policies in order to maintain a strong anti fraud and corruption culture. These include an Anti-Fraud and Corruption Strategy, Counter Fraud Strategy and Prosecution Policy (for Housing Benefit and Council Tax Reduction), Anti – Money laundering Policy, Anti - Bribery Policy, and Councillor and Officer Codes of Conduct. These strategies and policies are regularly reviewed and updated where appropriate.
- 3.2** 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.
- 3.3** The effectiveness of these controls is independently monitored by Internal Audit, and the Head of Audit and Performance provides regular reports to the Audit and Standards Committee on the internal control environment. The Head of Audit and Performance reported to the June 2014 meeting of the Audit and Standards Committee that the overall standards of internal control were satisfactory during 2013/14.

### **4 Structures within the Council to counter fraud and corruption**

- 4.1** Internal Audit assesses the risk of fraud and corruption every year as part of its annual and strategic planning processes covering the Council's key systems. In addition, Internal Audit carries out investigations of fraud and corruption other than those relating to benefits. Until recently, the Benefit Fraud Investigation Team has focused solely on benefits fraud, and has undertaken a range of pro-active anti-fraud work. Both Internal Audit and the Benefit Fraud Investigation Team are fully staffed, and comprise experienced and trained officers.
- 4.2** There has been some uncertainty over the future of the Benefit Fraud Investigations Team as it was due 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 anti-fraud service at the Council CMT approved the Investigations Team becoming part of the Audit and Performance Division (APD). The team will provide resources for the prevention and detection of fraud across additional areas of Council services including tenancy fraud, and business rates fraud. There has already been some initial work on the investigation of tenancy fraud - one case has resulted in a Notice to Quit being issued, and a further notice is being prepared for another case.
- 4.3** The transfer of the Investigations Team to APD is scheduled for 1 November 2014. The current workload for the team is approximately 80 cases of mainly benefits fraud. The team is liaising with DWP on preparations for the smooth migration of outstanding cases and the arrangements for information sharing after 1 November.
- 4.4** Under Financial Procedure Rules, the Chair of the Audit and Standards Committee is informed of the outcome of investigations into fraud and corruption. In future this

reporting stream will include the results of cases managed by the new Investigations Team in APD.

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

- 5.1** The Council takes an active role in the National Fraud Initiative (NFI) data matching exercises that are managed by the Audit Commission. The detailed preparations for the 2014/15 exercise are underway, and the data will be submitted in October 2014. Data matches will be returned to the Council in February 2015 for examination.
- 5.2** The Council is signed up the National Anti-Fraud Network (NAFN), which provides regular bulletins on current issues and initiatives. For benefits fraud, the Investigations Team has worked closely with the DWP doing joint investigations, and are members of the East Sussex Fraud Officers Group (ESFOG) that shares good practice and information. Internal Audit has joined the Sussex Tenancy Fraud Forum (TFF) to enable information sharing and joint initiatives with neighbouring authorities in both East and West Sussex, and is part of national information sharing network for tenancy fraud.
- 5.3** The Head of Audit and Performance is currently the Chair of the Sussex Audit Group (SAG) which circulates intelligence on current fraud issues and shares good practice in counter fraud activities.

## **6 Reported cases of fraud and corruption in 2013/14**

- 6.1** There has been a continuation of the recent trends in which the level of fraud and corruption at the Council has remained relatively low, and reflects the sound systems of internal control that are in operation. Nevertheless, there have been frauds detected and investigated as outlined below.

### **Work of Internal Audit**

- 6.2** In December 2011, the Chair of the Audit and Standards Committee asked Internal Audit to confirm the correct operation of the controls over additions and amendments to suppliers' details in Agresso. From the audit work carried out Internal Audit obtained substantial assurance that the Council operated sufficient controls to prevent unauthorised amendments to suppliers' details being used to create improper payments. Nevertheless, additional controls were introduced including telephone calls to suppliers to confirm the validity of all requested changes.
- 6.3** In late November 2013, the Council's Payments Team received a written request to change the bank account details for one of the Council's key suppliers. The standard telephone call to the supplier confirmed that the requested change was invalid and represented an attempted fraud. No payments were made to the bogus bank account, and details of the attempted fraud were passed to the bank's Fraud Notification Team for investigation.
- 6.4** As part of the Council's internal assurance framework senior officers have confirmed that there are no cases reported under the Council's Whistleblowing Policy.

## **Work of the Benefits Fraud Investigations Team**

**6.5** The work of the Council's Benefit Fraud Investigations Team during 2013/14 is summarised as follows.

- The Benefit Fraud Investigations Team proved 55 cases of Housing Benefit and Council Tax Benefit fraud during the year, with a total value of approximately £91,010. The cases were identified as a result of data matches from the NFI exercise (see 5.1 above), or were reported by Council staff, members of the public, and staff at DWP and other agencies.
- Of these 55 cases, five cases of benefits fraud were prosecuted. In each case the defendant was found guilty, and the money is being recovered by the Council via a variety of means. A further six cases have been prepared for prosecution and are awaiting action. In 20 cases, the benefit claimants agreed to pay an Administrative Penalty as an alternative to prosecution, but in addition to the amount of benefits overpaid. The penalties totalled approximately £16,500.
- The Benefit Fraud Investigations Team proved six cases of Council Tax Reduction (CTR) fraud, with a total value of approximately £2,070.
- The Council is required to report to the external auditor (BDO) all instances of fraud valued in excess of £10,000 and all incidents of corruption. During 2013/14, the Council reported one case of Housing and Council Tax Benefits fraud that exceeded this threshold, being assessed at £15,667. A further three cases that exceed the £10,000 threshold are awaiting decisions on future action, and have not yet been reported to BDO.

### **Single Person Discounts (SPDs)**

**6.6** The Council has joined with other local authorities in East Sussex to employ a private sector company to check on the status of Single Person Discounts (SPDs) claimed by residents against their Council Tax liability. During 2013/14, this process identified 124 cases of SPDs to which the liable person was not entitled, with a total value of approximately £43,090. The SPDs were removed without needing to prove fraud.

### **Reporting to the Audit Commission**

**6.7** The Audit Commission publishes an annual report on fraud and corruption in local government called 'Protecting the Public Purse', and the report is based on a fraud and corruption survey that all Local Authorities are required to complete. The Council's survey return for 2013/14 was submitted to the Audit Commission in May 2014. The numbers and values of the reported fraud cases outlined above are those reported to the Audit Commission.

## **7 Financial Appraisal**

**7.1** There are no additional financial implications from this report.

## **8 Risk Management Implications**

**8.1** 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.

## **9 Sustainability Implications**

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

## **10 Equality Screening**

**10.1** 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.

## **11 Background Papers**

**11.1** None.

## **12 Appendices**

**12.1** None.