

Agenda Item No: 9 **Report No:** 128/115

Report Title: Annual Report on the Council's work to combat Fraud and Corruption 2014/15

Report To: Audit and Standards Committee **Date:** 28 September 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

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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 2014/15.

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 new 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 2014/15 (Section 6).
 - 5 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, 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 the controls is independently monitored by Internal Audit, and the Head of Audit, Fraud and Procurement (HAFP) provides regular reports to the Audit and Standards Committee on the internal control environment. HAFP reported to the June 2015 meeting of the Audit and Standards Committee that the overall standards of internal control were satisfactory during 2014/15.

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 and strategic planning processes covering the Council's key systems. Internal Audit has until recently provided the main resource for the investigation of alleged cases of corporate fraud and corruption.

4.2 There were no reported cases of corruption during 2014/15.

Fraud Investigation Team

4.3 Until 2014, the Fraud Investigation Team had focused solely on benefits fraud, and had undertaken a range of pro-active anti-fraud work. In the early months of 2014/15 there was uncertainty over the future of the 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 team becoming part of the Audit, Fraud and Procurement (AFP) Division from 1 November 2014.

4.4 The Fraud Investigation Team has provided resources for the prevention and detection of fraud across additional areas of Council services including tenancy fraud, and business rates fraud. The placement of the team within Internal Audit has enabled a greater degree of coordination of counter fraud work, and has created more opportunities to encourage and focus efforts in the areas of potential risk. This has been particularly marked in the relationship with Housing Services where officers from both departments work together on joint initiatives. In recent months, 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. Similar arrangements are being put in place 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.

- 4.5 The Fraud Investigation Team continues to work with colleagues in the Benefits Team in Customer Services to counter benefit fraud, but this is now in the context of a formal Service Level Agreement (SLA) with DWP for the joint management HB fraud cases. The major work on each HB case is the responsibility of SFIS. LDC retains a 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. The LDC teams work with local DWP officers to help ensure efficient operation of the processes covered by the agreement.
- 4.6 Under Financial Procedure Rules, the Chair of the Audit and Standards Committee is informed of the outcome of investigation into significant cases of fraud and corruption. Each meeting of the Committee receives a summary report on the work of the Fraud Investigation Team.
- 4.7 Both Internal Audit (3.2 FTE) and the Fraud Investigation Team (1.6 FTE) are fully staffed, and comprise experienced and trained officers. The Fraud Investigation Team and Principle Audit Manager (PAM) have joined colleagues in neighbouring authorities to undergo training in new areas of counter fraud work (see 5.5 and 5.6).

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 recently, were managed by the Audit Commission. From 1 April 2015, responsibility for current and future exercises rests with the Cabinet Office.
- 5.2 Internal Audit has been coordinating the Council's response to the 2014/15 NFI data matching exercise. The base data was forwarded to the Audit Commission in October 2014 and the first reported matches for LDC were received on 29 January 2015. Each report sets out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council.
- 5.3 Further matches have been received since then, and there are now 1,568 matches detailed across 56 reports. Council departments have nominated officers to investigate matches in their service area, and their initial work has been to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper activity - 670 matches have been actioned with no instances of fraud so far identified. Any suspected cases of fraud would be passed to the Fraud Investigation Team.

National Anti-Fraud Network (NAFN)

- 5.4 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

- 5.5** 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. In response to offers of funding from DCLG for counter fraud initiatives, a sub group of six authorities within ESFOG, including LDC, submitted a successful funding bid for the development of a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex.
- 5.6** The Hub is managed by officers at Eastbourne BC in accordance with the corporate governance arrangements of that authority, with input from ESFOG partners as appropriate. The initial priorities for the Hub have been a programme of standardised training and planning, the testing of case management and data sharing systems, and a pilot scheme (at Eastbourne BC) for a tenancy management application. Current projects include a coordinated approach to publicity for Hub activities, and Hub partners developing counter fraud techniques in specific areas.
- 5.7** All the above developments have been funded from the DCLG grant, which will also support other counter fraud activities in partner authorities. For example, Eastbourne BC and LDC will be seeking funding for publicity material for their separate campaigns to counter housing tenancy fraud.
- 5.8** LDC has joined 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, Fraud and Procurement 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 in 2014/15

- 6.1** The work of the Council's Fraud Investigation Team during 2014/15 is summarised as follows.

Housing Benefit fraud

- 6.2** The Benefit Fraud Investigation Team proved eight cases of Housing Benefit and Council Tax Benefit fraud prior to 1 November 2014, with a total value of approximately £40,000. The cases were identified as a result of data matches from the previous NFI exercise, or were reported by Council staff, members of the public, and staff at DWP and other agencies. Five cases were prepared for prosecution, and three cases were the subject of administrative penalties.
- 6.3** In the lead up to the transfer to Internal Audit, the case load for the Fraud Investigation Team was 83 live cases of mainly benefits fraud. The team worked closely with DWP on preparations for the smooth migration of 35 of the more significant outstanding cases and the arrangements for information sharing as per the SLA. After the 1 November 2014 transfer, a total of 83 HB cases were passed to SFIS via the SLA procedures, and 34 information requests were actioned.

Council Tax Reduction Scheme (CTRS) fraud

- 6.4** LDC retains responsibility for dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for CTRS cases that are not subject to prosecution. A total of 115 cases of suspected CTRS fraud were referred to the team, and assessed, during 2014/15. Most of the cases were of relatively low value overpayments, and were closed without a formal investigation. There were 30 live cases of suspected CTRS fraud under review at the end of March 2015, and these were actioned in the early months of 2015/16.

Housing Tenancy fraud

- 6.5** Since November 2014, the work on developing the team's approach to counter tenancy fraud included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, and establishing referral arrangements with officers in LDC Housing Services.
- 6.6** A total of 13 suspected cases of tenancy fraud were referred to the team, and eight of these cases were still underway at the end of March 2015. Four of the cases were closed as the investigations had established that there had been no fraud. One property was returned to the Council's housing stock after the team had proved abandonment by the tenant. One of the cases still underway in March 2015 resulted in the return of an abandoned property in the early months of 2015/16. Dealing fully with these cases of property abandonment is a key part of the work to return unused properties to the housing stock, although abandonment is not strictly fraud under the Prevention of Social Housing Fraud Act 2013.

Business Rate fraud

- 6.7** NDR has been the planned priority area for the team, based upon some initial research and a small pilot study in 2014. No work was done on this subject in 2014/15, with significant activity scheduled for the early months of 2015/16. In early June 2015 the team attended training on counter fraud work for NDR in an exercise organised by the Hub. The team has been working with officers in the LDC Revenues team to set up a method to target areas of possible non-payment of business rates.

Council tax - Single Person Discounts (SPDs)

- 6.8** 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 2014/15, this process identified 242 confirmed cases of SPDs to which the liable person was not entitled, with a total increase in Council Tax collections of approximately £79,500 in 2014/15. The SPD were removed without the need to prove fraud. The cost of the Northgate service was approximately £4,500.

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.