

Agenda Item No: 9 **Report No:** 79/16

Report Title: Annual Report on the Council's work to combat Fraud and Corruption 2015/16

Report To: Audit and Standards Committee **Date:** 20 June 2016

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 2015/16.

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 2015/16 (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 have 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 emphasise 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, Fraud and Procurement (HAFP) 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 2015/16, 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. This strategy is known as the Joint Transformation Programme (JTP). The full integration of the respective Fraud Investigation Teams in both councils will form part the wider JTP project, but progress has already been made in coordinating counter fraud activities and in sharing expertise and resources (see Sections 4, 5 and 6).

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 individual 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 HAFP provides regular reports to the Audit and Standards Committee on the internal control environment. HAFP is reporting to the June 2016 meeting of the Audit and Standards Committee that the overall standards of internal control were satisfactory during 2015/16.

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. Up until November 2014, Internal Audit provided the main resource for the investigation of alleged cases of corporate fraud and corruption.

Fraud Investigation Team

- 4.2** Until November 2014, the Fraud Investigation Team had focused solely on benefits fraud, and had undertaken a range of pro-active anti-fraud work. There had been uncertainty over the future of the team as it was 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, Fraud and Procurement (AFP) Service from 1 November 2014.
- 4.3** 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.
- 4.4** The Fraud Investigation Team is staffed to its approved level (1.4 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 is 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.
- 4.5** The placement of the team within Internal Audit has enabled a greater degree of cooperation and coordination in counter fraud work, and has created more opportunities to encourage and focus efforts on the areas of potential risk. The team has unhindered access to staff, information and other resources as may be required for investigation purposes.
- 4.6** This approach has been particularly successful in the relationship with Housing Services where officers from both departments work together on joint initiatives (see 6.5 and 6.6 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/Housing review of the housing register procedures at the request of the Head of Customer Services. The Fraud Investigation Team will also be involved in a revised regime of checks on Right to Buy (RTB) applications as a result of an audit carried out by the Internal Audit Manager at EBC.
- 4.7** At present, countering housing tenancy fraud and abandonment is the main operational priority 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.

- 4.8** 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 of 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. In an agreement with the Fraud Investigation Team at EBC, a member of that team is to take over the DWP liaison work for LDC using existing EBC procedures and thus allow the LDC team to focus on case work in other areas.
- 4.9** 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.

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 2014/15 NFI data matching exercise. Preparations for the 2104/15 exercise began in April 2014, and the base data was forwarded to the Audit Commission in October 2014. The first matches were returned to LDC in January 2015, detailed across 56 reports. The reports set out the potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council. Each report highlighted 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 targeted their efforts with the initial focus on those matches that were recommended for review. The work required 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.
- 5.4** The exercise ended on 14 April 2016, with the Council required to declare that the recorded results were a reasonable reflection of the current position. In June 2016 the Cabinet Office will issue a national report on the outcome of NFI 2014/15, after which the Council will receive an assessment of its own response to the exercise. As previously, the assessment is likely to say that the Council has not examined all the

reported matches. There is no sanction for the Council only partially completing the exercise.

- 5.5** Of the 1,524 reported matches LDC has examined 1,135 (75%). There have been no instances of fraud found on any of the reports, although the exercise has identified 42 HB overpayments resulting from error with a total value of approximately £15,700. These results include the examination of 343 of the 370 recommended matches. The outstanding recommended matches cover student loans – the service examined more than half of the recommended matches for student loans with no errors or frauds found. Services assessed that the results obtained from the work did not justify further resources being assigned to the examination of more matches, and Internal Audit supports this view.
- 5.6** The conduct and progress of the NFI 2014/15 was regularly reported to the Audit and Standards Committee.
- 5.7** Negotiations are underway with the Fraud Investigation Team at EBC for a member of that team to use their data analysis techniques on behalf of LDC in the forthcoming NFI 2016/17 exercise. This approach will make more effective use of resources by reducing the number of matches that are referred to LDC departments for detailed investigation.

National Anti-Fraud Network (NAFN)

- 5.8** 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

- 5.9** 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 anti-fraud initiatives across East Sussex.
- 5.10** 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 coordinated approach to publicity for Hub activities, and Hub partners developing counter fraud techniques in specific areas.
- 5.11** 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.
- 5.12** 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 and corruption in 2015/16

- 6.1** The results of the Council's counter fraud and corruption work during 2015/16 is summarised as follows.

Corruption

- 6.2** There were no reported cases of corruption during 2015/16.

Housing Benefit fraud

- 6.3** During 2015/16 the Fraud Investigation Team continued to work closely with DWP colleagues to maintain the effectiveness of the SLA. A total of 142 HB cases were passed to SFIS via the SLA procedures, and 102 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 72 cases of suspected CTRS fraud were referred to the team, and assessed, during 2015/16. There were 46 live cases of suspected CTRS fraud under review at the end of March 2016, with ten cases having been proven and penalties administered.

Housing Tenancy fraud

- 6.5** During 2015/16, the work on counter tenancy fraud included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, maintaining effective referral arrangements with officers in LDC Housing Services, and supporting the Housing Services key amnesty in late 2015.
- 6.6** A total of 27 suspected cases of tenancy fraud were referred to the team, and eight of these cases were still underway at the end of March 2016. Seven properties were 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.

Business Rate fraud

- 6.7** NDR has been the development priority for the team, based upon some initial research and a small pilot study. 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.
- 6.8** Visits to an industrial estate in Lewes District identified nine business premises (10% of those examined) not recorded on NDR and therefore not paying business rates – the results were passed to the local team of the Valuation Office Agency (VOA) for

assessment. 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. Further visits to other industrial estates will be scheduled as appropriate.

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 2015/16, this process identified 28 cases of SPDs to which the liable person was not entitled, with a total increase in Council Tax collections of approximately £9,200. The SPDs were removed without the need to prove fraud. The cost of the Northgate service was approximately £518. These results remain positive, although they are at a lower level than previously because of the successes in prior years when more invalid SPDs were identified (eg 242 in 2014/15).

8 Compliance with the CIPFA Code of Practice

- 8.1** The HAFP has 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. 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.