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| Body: | Audit and Governance Committee |
| Date: | 24 th September 2014 |
| Subject: | CORPORATE FRAUD |
| Report Of: | Internal Audit Manager |
| Ward(s) | All |
| Purpose | To update the committee on the move to having a Corporate Fraud team. |
| Recommendation(s): | To consider the contents of this report and comment on the steps in the action plan. |
| Contact: | Jackie Humphrey, Internal Audit Manager - 5925 |

1.0 Introduction

- 1.1 In November the Single Fraud Investigation Service (SFIS), run by the DWP, will take over the investigation of Housing Benefit fraud for Eastbourne. With this the staff from the Fraud Investigation team would transfer to the DWP.
- 1.2 At the same time Councils are being actively encouraged to investigate corporate fraud. This is not yet compulsory but it is good governance. However the Council currently has no resources to carry out this work.

2.0 Government Expectations re Corporate Fraud

- 2.1 In his Autumn Statement dated 5th December 2013 the Rt. Hon. Eric Pickles MP stated that "alongside the roll out of the Single Fraud Investigation Service, DCLG and DWP are investing in local government's capacity to tackle non-welfare fraud". He goes on to state that this would include extra funding over 2014-15 and 2015-16 "which will be able to support new fraud investigator posts in councils focussed on tackling corporate fraud".
- 2.2 In the DWP document "The Transfer of Undertaking (Protection of Employment) (Transfer of Staff to the Department for Work and Pensions) Regulations 2014, the government response to one item states "additionally the local authorities need to ensure they have sufficient capability to maintain their Corporate Fraud work."
- 2.3 Every year the Audit Commission publishes a Fraud and Corruption Survey which we are required to complete. They also publish a document annually entitled "Protecting the Public Purse" which reports on the findings of the survey. Each year this contains questions about our counter-fraud work
- 2.4 Fighting Fraud Locally – The Local Government Fraud Strategy begins its introduction "our vision is that by 2015 local government will be better able to protect itself from fraud and have in place a more effective fraud response."

3.0 What is Corporate Fraud

- 3.1 Corporate Fraud focusses on areas of fraud risk outside of Housing and Council Tax Benefits. These include Housing Tenancy, Single Person Discount, Procurement, Grants, Employee, Insurance and Right to Buy fraud. By proactively looking for fraud in these areas authorities are able to demonstrate that they are protecting public money.
- 3.2 Whilst Internal Audit reviews have been carried out in these areas these do not proactively look for fraud but look for any weaknesses in controls which could allow frauds to occur.
- 3.3 The role of Corporate Fraud is to proactively look for fraud in the areas listed above by using data matching, other analytic tools, investigations etc.
- 3.4 Most reports from government appear to indicate that Corporate Fraud teams would become self-funding from the savings made through their work.
- 3.5 Fighting Fraud Locally – The Local Government Fraud Strategy, recommends that authorities:
- Acknowledge and understand fraud risks
 - Prevent and detect more fraud
 - Are stronger in punishing fraud and recovering losses

The strategy concludes by suggesting that actions are set to address the recommendations in the strategy and to set up new structures to support the delivery of the strategy.

- 3.6 The reported potential level of fraud at Eastbourne Borough Council, as taken from the NAFN fraud risk tool, is as follows:

| Area | Lower Estimate | Upper Estimate |
|--|----------------|----------------|
| Council Tax Fraud (discounts and exemptions) | £280k | £460k |
| Housing Tenancy Fraud | £500k | £800k |
| Procurement Fraud | £400k | £670k |
| Local Council Tax Support | £20k | £40k |
| Payroll | £20k | £30k |
| TOTAL | £1,220k | £2,000k |

4.0 Where We Are Currently

- 4.1 It would be wrong to think that we are currently not doing any work which can be considered as part of Corporate Fraud. Both Internal Audit and the Fraud Investigation team are carrying out some work in these areas.

Internal Audit

An annual risk-based audit plan is produced and agreed by CMT and the Audit and Governance Committee. An audit review will identify key controls which should prevent or deter fraud or error and will carry out tests to ensure that these controls are in place and working. This work will not proactively look for frauds but will find areas of control weakness and recommendations will be made to

improve these. In addition the Internal Audit team are asked to conduct investigations into allegations of fraud raised by HR.

Fraud Investigation Team

The team investigate possible benefit fraud cases raised by both the Benefits team and by the DWP. However, in recent years they have moved away from just investigating benefit fraud and also carry out the following pieces of work:

- Housing Benefit Matching Service - data matches are sent to the Council which need to be investigated.
- Housing - help and advice re homeless applications, e.g. persons from abroad, false statement on applications, failure to notify changes of circumstances etc.
- Business Rates - working with officers to check company status, investigate cases where companies are trying to avoid business rates or attempting to apply for exemptions to which they are not entitled.
- Environmental Health - working with officers to challenge landlords providing inadequate accommodation, or those making false claims. Also work to ensure that HMOs are registered.
- Customer Contact Centre - Support given when officers have difficult customers.
- Eastbourne Homes - working with EHL to tackle tenancy fraud and other issues around occupation, Right to Buy, Benefit queries etc.
- Council Tax - Daily support and assistance when highlighting cases of concern.
- Recovery - working closely with recovery officers, assisting and identifying contact addresses, identifying cases where payments are not being made or are too low. Compliance Officer arranges payment schedules with customers for outstanding debts, monitoring payments and challenging those failing to make payments.
- Brighton Housing Trust - the trust notifies the team of moves etc to help prevent overpayments of benefit.
- East Sussex County Council - undertaking joint visits to vulnerable customers in need of assistance with benefit advice/debt.
- Electoral Service - ensuring that when new adults are added to claims that they are also registered on the Electoral Roll.

National Fraud Initiative

This is a biennial exercise, currently hosted by the Audit Commission, whereby data sets are uploaded by local authorities and data matching reports are produced. The reports match data within authorities, between authorities and with other agencies. Each local authority then works through the matches to investigate them for potential frauds. Currently this work is carried out by staff in the relevant departments. This is not ideal since there is a risk that there could be staff involved with fraud who are then checking the entries and are able to further disguise the fraud.

5.0 Implications of SFIS

- 5.1 In November the SFIS will extend to Eastbourne. This would have meant that staff in the Fraud Investigation team would transfer to the DWP. This could have been the manager and two investigators but it could also have included the Compliance and Support Officers.

- 5.2 As described earlier in this report the team carry out far more than just work on benefits and elements of this would remain with the Council. This includes work on the Council Tax Reduction Scheme and Single Person Discounts and other exemptions as well as the other work previously listed. Additionally Universal Credit will not include pensioners who will remain in receipt of Housing Benefit; preventing and detecting fraud and error in this area may remain with the Council. Consideration therefore needs to be given to how these will continue to be investigated and whether the other work is continued.
- 5.3 The DWP expects a there to be a Single Point of Contact (SPOC) in place in the authority that will act as liaison between the DWP and the Council. The officer in this role would need to have knowledge of the benefit system and fraud.

6.0 Decisions

6.1 The Revenues and Benefits Manager took a report to CMT on 24th June to consider the ramifications of the implementation of the Single Fraud Investigation Service and the opportunity for creating a Corporate Fraud team.

6.2. The following were the options considered:

Option 1 -Fraud Investigation team to move to DWP

Option 2 – Retain 1 investigator and 1 admin staff

Option 3 – Retain all or majority of the Fraud Investigation team.

Option 3 was to set up a corporate fraud team on a 2 year trial basis and reporting to Internal Audit.

6.3 CMT agreed to retain all the staff and have this team carry out the work not taken over by SFIS and the corporate fraud work.

6.4 This was ratified for the current financial year in consultation with the Leader of the Council and the Portfolio Holder for Finance.

7.0 Financial Implications

7.1 Currently the Fraud Investigations team costs around £270k per annum. This is funded through the Administration Grant. This grant has been paid in full for 14/15 though SFIS comes into effect in November. This grant will be reduced in 15/16 and will cease for 16/17. Therefore the new team can begin work in this financial year at no extra cost.

7.2 With the cutting of the grant in future other funding must be considered. There is some funding available from government for corporate fraud teams, however it is clear that the monies will only be given to those authorities working in collaboration with others. Eastbourne will be working with East Sussex County Council, Lewes, Brighton and Hove, Rother, Hastings and Wealden to bid for a share of this.

7.3 There is an element of income generation from the fraud team as it currently stands plus a future opportunity. Currently Council Tax Reduction (CTR) offences can be subject to up to 50% AdPen. Where a change of circumstance for CTR has

not been reported within 21 days, a penalty of £70 can be imposed. Further failure to supply information can have a further penalty of £280 imposed.

- 7.4 Eastbourne Borough Council now has the powers under "Prevention of Social Housing Fraud Act 2013" to assist them in investigating potential tenancy related frauds in social housing. These powers compel financial, utility and telecommunications companies to provide information to the authorised officers. These powers can also be used by the Council to provide services to other social housing providers, thereby generating income.
- 7.5 There is the possibility of carrying out some counter fraud work for Eastbourne Homes, beyond tenancy fraud, which should also generate some income.
- 7.6 The work should also have other benefits such reclaiming sub-let council houses. While there will be no direct income from this the benefit should be quantified and offset against the cost of the service.

8.0 Moving Forward

- 8.1 From 1st November staff from the Benefit Fraud team will become the Corporate Fraud team and begin work on setting up processes and start on carrying out work on trial areas. It should be noted that Eastbourne is not the only authority in the area going down this path; Lewes are also retaining staff for the purposes of corporate fraud work.
- 8.2 A proposal for continuing the work in 15/16 will form part of the Service and Financial Plan which will be taken to Cabinet in December.
- 8.3 Work needs to be carried out on sorting out job descriptions and person specs for the members of staff affected.
- 8.4 The scope of the work for the Corporate Fraud team needs to be considered and agreed.
- 8.5 Consideration needs to be given to carrying out joint work with Internal Audit to consider work with EHL, Towner Trust and the Hippodrome Trust around safeguarding the Council's investments.
- 8.6 A strategy and plan of work for November to the end of March must be put in place. We have no experience of this work so we must research this and decide how best to go about carrying out the work.
- 8.7 Progress on work will be reported quarterly to the Audit and Governance Committee and at the December meeting of this committee there will be an update on the setting up of the section.
- 8.8 A draft action plan of steps necessary in setting up the new section to be addressed is appended to this report.

9.0 Other Implications

- 9.1 None

10.0 Summary of Options

10.1 None

11.0 Recommendation

11.1 To consider the proposed steps to be taken in setting up a Corporate Fraud team and make suggestions re the scope.

Jackie Humphrey
Internal Audit Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

The Transfer of Undertakings (Protection of Employment) (Transfer of Staff to the Department for Work and Pensions) Regulations 2014

Department for Communities and Local Government – Autumn Statement – 5th December 2013

Protecting the Public Purse Fraud Briefing 2013

Fighting Fraud Locally – The Local Government Fraud Strategy

Action Plan

| Action | Responsible Officer | To be completed by | Progress |
|---|----------------------------|---------------------------|---------------------------------------|
| Thoroughly research corporate fraud and how other authorities are dealing with this | Internal Audit Manager | December 2014 | |
| Decide on the scope of corporate fraud work – <i>see note below</i> | Internal Audit Manager | March 2015 | |
| Write strategy | Internal Audit Manager | March 2015 | |
| Develop and agree plan for 14/15 (November to March) | Internal Audit Manager | 30 October 2014 | |
| Complete Service and Financial Plan proposal for 15/16 | Internal Audit Manager | October 2014 | |
| Complete joint bid for funding (includes Lewes, Wealden and Rother) | Internal Audit Manager | September 2014 | Bid has been completed and submitted. |
| Consider and agree performance indicators, including a means of giving a value to such areas. | Internal Audit Manager | March 2015 | |
| Develop job descriptions and person specs for the new roles | Internal Audit Manager | 30 October 2014 | |
| Develop day to day working processes | Internal Audit Manager | March 2015 | |
| Develop reporting templates | Internal Audit Manager | March 2015 | |
| Raise awareness of corporate fraud across the authority | Internal Audit Manager | March 2015 | |

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| Investigate forms of income | Internal Audit Manager | March 2015 and ongoing | |
| Appoint SPOC for DWP | Internal Audit Manager | 1 st November 2014 | |
| Review Prosecution Policy | Fraud Investigations Manager | November 2014 | |
| Carry out fraud risk assessment | Fraud Investigations Manager | January 2015 | |
| Consider joint work with Internal Audit looking at Hippodrome Trust, Towner Trust and EHL to safeguard the Council's investment. | Fraud Investigations Manager and Internal Audit Manager | February 2015 | |

Note: Likely to include:

Council Tax Reduction

National Fraud Initiative

Other corporate fraud work (tenancy, payroll, purchasing etc)

Single Person Discount fraud

Housing Benefit pensioners fraud

Long term continuing benefit cases

Advice for section:-

Housing support

NNDR

Environmental Health – landlords

Customer contact centre – difficult customers

Council Tax – cases of concern

Recovery – finding addresses and monitoring payment plans

Point of contact for Brighton Housing Trust

Joint visits to vulnerable customers with East Sussex County Council

Electoral Services – helping to ensure new adults added to claims are on the Electoral Register.