

Report Title: Annual Report on the Council's work to combat Fraud and Corruption 2017/18

Report To: Audit and Standards Committee **Date:** 17 July 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

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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 2017/18.

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 2017/18 (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, and 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 2017/18, 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 Counter Fraud Teams in both councils took place on 1 July 2017.

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 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 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. HACF is reporting separately to the July 2018 meeting of the Committee on the overall standards of internal control.

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. This role is now covered by the Counter Fraud 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.

Counter Fraud Team

4.2 The Counter Fraud Team had previously focused solely on benefits fraud, and 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.

4.3 The Counter Fraud Team has the following service objective:

To provide an efficient and effective Counter Fraud 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.

4.4 The Counter Fraud 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. The Council believes that this level of staffing is commensurate with the levels of risk, but has been making effective use of resources available in the shared service (see 4.6 to 4.8, 5.7, and 6.3).

4.5 The work to develop the role of the Counter Fraud Team has been particularly successful in the relationship with Housing Services where officers from both departments work together on joint initiatives (see 6.6 to 6.10 below). Future planned activities with Housing Services include a joint Internal Audit/Counter Fraud review of the housing register procedures in 2018.

4.6 In July 2016, the Counter Fraud Team implemented a new regime of checks on Right to Buy (RTB) applications. 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 Counter Fraud personnel at Eastbourne and Lewes apply the same methods of checking RTBs. The teams liaise regularly to ensure the shared approach continues to reflect developing best practice.

4.7 At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes 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 is being developed with colleagues in Eastbourne.

4.8 The Counter Fraud Team has continued to work with colleagues 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. The Counter Fraud Team at Eastbourne has carried out the majority of the DWP liaison work for Lewes in 2017/18 to allow the Lewes 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 investigations into significant cases of fraud and corruption. Each meeting of the Committee receives a summary report on the work of the Counter Fraud 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 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.
- 5.3** Initially, Council services nominated officers to investigate the matches in their areas, targeting the 'Recommended' matches that appeared to indicate the greatest likelihood of fraud. The work requires the weeding out of 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 Counter Fraud Team for action, with any suspected cases of HB fraud referred to DWP.
- 5.4** The exercise to investigate reported matches has found no cases of fraud or error so far. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches is now being done in Internal Audit but not as a priority task.
- 5.5** The conduct and progress of the NFI exercise has been regularly reported to the Audit and Standards Committee.

National Anti-Fraud Network (NAFN)

- 5.6** The Council is signed up to 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

- 5.7** 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. Since 2014/15, a sub group of authorities within ESFOG, including LDC and EBC, have been working as a 'Hub' to coordinate new counter fraud initiatives across East Sussex.
- 5.8** The Hub is administered by officers at Eastbourne, with input from ESFOG partners as appropriate. Lewes and Eastbourne Counter Fraud activities DC have benefitted from Hub funding in the ongoing provision of training, the introduction of a shared case management system, a shared approach to publicity for Hub activities, and the set-up of an on-line system to allow the public to report suspected frauds – the Counter Fraud Teams at Eastbourne and Lewes use a shared web link to receive these reports.
- 5.9** 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 Counter Fraud Team are part of a national information sharing network for tenancy fraud.
- 5.10** 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 2017/18

- 6.1** The results of the Council's counter fraud and corruption work during 2017/18 is summarised as follows.

Corruption

- 6.2** There were no reported cases of corruption during 2017/18.

Payroll fraud

- 6.3** Early in 2018, the Counter Fraud Team assisted Human Resources and service managers in the investigation of a case of payroll fraud, which resulted in a disciplinary hearing and dismissal of the individual involved.

Housing Benefit fraud

- 6.4** During 2017/18, Counter Fraud personnel continued to work closely with DWP colleagues to maintain the effectiveness of the SLA. A total of 36 new HB cases were passed to SFIS via the SLA procedures, and 94 information requests were actioned.

Council Tax Reduction Scheme (CTRS) fraud

- 6.5** 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 for investigation. The amounts of the CTR invalidly claimed are being recovered by the Revenues Team.

Housing Tenancy fraud

- 6.6** During 2017/18, the work to counter tenancy fraud included managing the investigations case load, monitoring best practice at other authorities, maintaining effective referral arrangements with officers in Homes First and other services, and responding to cases reported by residents.
- 6.7** In the twelve months to the end of March 2018, six properties were returned to the Council's housing stock after the team had proved abandonment by the tenant. 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. There is an assessed value of the benefit arising from each returned property – across the UK the amount most often used is that provided by the NFI at £93k per property – and the value of the LDC returns is assessed at nearly £560k.
- 6.8** Sixteen cases were under investigation at the end of March 2018 – since then four cases have resulted in court actions in which the judge awarded possession of the property to the Council.

Right to Buy (RTB) Scheme

- 6.9** Since April 2017, 45 RTB applications have been subject to check by the Counter Fraud Team. Of these, 18 applications have been approved and passed for processing, and seven applications were under review at the end of March 2018. Twenty of the applications were either withdrawn after intervention by the team, or the application had been closed after the applicant failed to respond to the request for information. During the same period, two other RTB applications that had been made prior to April 2017 were withdrawn. Applications are withdrawn for a variety of reasons and it is not possible to say that the withdrawals indicate fraud. Three RTB cases were under investigation at the end of March 2018 for potential fraud.
- 6.10** At present, the 22 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 £1.65m in discounts that were not given. The 22 withdrawals have also saved the Council approximately £6,600 from the property valuations that have not been required.

7 Council tax - Single Person Discounts (SPDs)

- 7.1** The Council has for some years 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 2017/18, the period of a short term contract with Capita, this process identified 359 cases of SPDs to which the liable person was not entitled - the SPDs were removed without the need to prove fraud. These results compare favourably with those from previous similar contracts (242 SPDs removed in 2014/15, 28 in 2015/16, and 239 in 2016/17).

7.2 The Council and the other authorities have been engaged in a procurement exercise to determine the company that will operate the equivalent service in future – the company is Datatank.

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.