



Coventry City Council

Public report

Report to

Audit and Procurement Committee

18th November 2013

Name of Cabinet Member:

Cabinet Member (Strategic Finance and Resources) – Councillor Gannon

Director approving submission of the report:

Executive Director, Resources

Ward(s) affected:

City Wide

Title:

Half Yearly Fraud Report 2013-14

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with a summary of the Council's anti-fraud activity for the first half of the financial year 2013-14, focusing primarily on corporate and benefit fraud.

Recommendation:

The Audit and Procurement Committee is recommended to note:

1. The outcome of the Council's response to fraudulent activity during 2013-14 to date.
2. The update provided in respect of the implementation of the Single Fraud Investigation Service.

List of Appendices included:

Appendix One - Significant Frauds April to September 2013

Other useful background papers:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee.

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

Half Yearly Fraud Report 2013-14

1. Context (or background)

- 1.1 The focus given to fraud in the public sector has increased over the last few years, primarily as a result of the publication by the National Fraud Authority of "Fighting Fraud Locally - The Local Government Fraud Strategy". In response to this document, the Council updated its Fraud and Corruption Strategy during 2012-13 to ensure that it continues to reflect recommended practice.
- 1.2 Whilst the national strategy states that the public sector is dealing with increasing levels of fraud activity, the experience of the Council is that apart from the area of benefit fraud, levels of identified / reported fraud against the Council are still at a relatively low level, in terms of both numbers and value when compared with the size of the organisation.
- 1.3 Over this period, several developments and / or planned changes in approach have been agreed which have or will impact on the Council's approach to fraud, including:
 - Responsibility for both corporate and benefit fraud now lies with the Internal Audit and Risk Manager.
 - Given the Council's experience of corporate fraud, a decision was taken to reduce the resources dedicated to this area from two posts to one.
 - Whilst the area of benefit fraud has not been the subject of much change, it needs to be acknowledged that for the last two years, the team has been operating with uncertainty regarding its future. This is due to a decision of Government to merge benefit fraud teams based in local authorities with fraud teams within the Department for Work and Pensions (DWP) and Her Majesty Revenue and Customs (HMRC), to create a Single Fraud Investigation Service.
- 1.4 Given these factors, the previous Audit Committee focused significant time on fraud to gain assurance that the Council has effective processes in place to respond to the risk of fraud. This report documents the Council's response to fraudulent activity during the first half of 2013-14, and is presented to the Audit and Procurement Committee in order to discharge its responsibility, as reflected in its terms of reference *'to monitor Council policies on whistle blowing and the fraud and corruption strategy'*.

2. Options considered and recommended proposal

- 2.1 **Corporate Fraud** – With the limited resources available, the focus of work in this area has been split between co-ordinating the Council's response to the National Fraud Initiative and dealing with reported allegations of fraud. A summary of this activity is detailed below.
 - 2.1.1 **National Fraud Initiative (NFI)** – The NFI exercise is currently led by the Audit Commission, although when the Audit Commission closes in 2015, responsibility will move to the Cabinet Office. The exercise takes place every two years and matches electronic data within and between public bodies, with the aim of detecting fraud and error. Our focus in 2013-14 has been on co-ordinating and investigating the reported matches of potential fraud / error that were received in February 2013. To date, £213,000 of overpayments / error have been identified, as detailed below:
 - Housing Benefit – 37 cases have been completed in relation to benefit fraud. 29 of these relate to the failure of the claimant to declare income, for example a student loan, employment or income from a pension. In six cases, it was established that the claimant

was claiming benefit for more than one property at the same time and in the remaining two cases, checks on the claimant's immigration status led to overpayments being established. As a result:

- One individual was successfully prosecuted for benefit fraud.
- Three administrative penalties and 13 cautions were given, in line with the Council's Benefit Prosecution and Sanction Policy.
- In the remaining 20 cases, whilst an overpayment had been made, fraud was not established.

In total, this has resulted in overpayments of approximately £153k, of which £138k has been passed to the Overpayments Team for recovery. The remaining £15k has been assessed as unrecoverable, as it is classed as local authority error.

- Employment: Payroll to UK Visas - One employee has had their employment contract terminated as it was established that they did not have the right to work in the UK. The Audit Commission regards all monies paid to these individuals since the expiry of their leave to remain as being fraudulent, although in practical terms, such monies are not always recoverable. This case resulted in invalid contract payments of £55,683.
- Other - The other various data matches, have, to date, resulted in:
 - Pensions to Deceased Persons - Two cases were identified where pensions had been paid after the person had died. This resulted in overpayment totalling £2,988.
 - Private Residential Care Homes Payments to Deceased Persons - One case was identified where the Council had continued to make payments to a care home after the resident had died. This resulted in an overpayment of £1,698.

2.1.2 Fraud Referrals / Investigations – Table one below indicates the number of referrals by source in 2013-14, with comparable figures for the previous three financial years.

Table One - Fraud Referrals received between 2010-11 and 2013-14 to date

Source	Referrals 2010-11	Referrals 2011-12	Referrals 2012-13	Referrals 2013-14
Whistle-blower	27	15	14	4
Complaint	2	1	-	1
Manager	15	16	14	8
Total	44	32	28	13

The figures for 2013-14 are comparable to those for 2012-13 but continue to indicate a significant reduction in referrals when compared with 2010-11. We have no real way of determining the reasons for this reduction, but research by the international accountancy firm, BDO does support our experience, highlighting that internal whistle-blowers are likely to be less active in an area of cutbacks and increasing levels of unemployment. Over the next few months, we will be working with colleagues in Human Resources to review the effectiveness of the Council's Whistle-blowing Procedure.

2.1.4 Quality of Referrals and Outcomes – Whilst the number of referrals received is similar to 2012-13, the quality of referrals has generally not been high. Whilst acknowledging that two referrals are still being assessed as this report is being written, only two referrals received this year have resulted in a full investigation being carried out. The reason why referrals have not led to a full investigation is primarily due to insufficient evidence on which to pursue an investigation. This can be for various reasons including (i) anonymous referrals, preventing us from contacting the whistle blower for clarification and / or further information, or (ii) the nature of the event being a 'one-off' situation and the practicality of proving that an event in the past has actually taken place. Even in the two cases where a full

investigation was carried out under the Council's disciplinary procedure, this was considered the only way that the issues could be pursued. In both cases, it was concluded there was insufficient evidence to pursue these matters further.

- 2.2 **Benefit Fraud Team** – The performance in terms of administered sanctions, is reflected in table two below, along with comparative figures for the previous three years.

Table Two: Sanctions Administered by the Benefit Fraud Team

	2010-11	2011-12	2012-13	2013-14 to Sept 13
Administered Sanctions	162	189	174	96
Investigators (FTE) in Year	6	5.7	4.3	4.6
Sanctions Per Investigator	27	33	40	42*

* Projected performance based on first six months of 2013-14

Given the performance in 2012-13, a sanction target of 180 was set for 2013-14. Based on performance in the first half of 2013-14, the Benefit Fraud Team is on track to achieve this target. This work to date has resulted in the identification of overpayments (fraud and non-fraud) totalling approximately £0.78 million, which is being pursued for recovery.

- 2.2.1 **Single Fraud Investigation Service (SFIS) Update** – A key issue facing the Benefit Fraud Team is the lack of certainty around its future, given the decision of Government in 2011 to merge local authority benefit fraud teams with their counterparts based in the DWP and HMRC, in order to create the SFIS. In the latest update in August 2013, the Committee was advised that the rollout of the new Service would occur during in 2014-15, although there was no detail around how this Service will be provided.

In September 2013, the DWP issued a further update highlighting that a recommendation was ratified by their Permanent Secretary and Minister to introduce the SFIS as a single organisation within the DWP during 2014-15. Whilst details (including human resources implications and the impact on people currently working on fraud investigations and prosecutions) underpinning this approach have yet to be agreed, the update indicated that the approach being considered is based on the following planning assumptions:

- Investigation of housing benefit and council tax benefit fraud will move to the DWP.
- Investigation of Local Council Tax Support will remain with local authorities.
- DWP investigators will request information and evidence from local authorities to support their investigations.

Further updates on this matter, including the Council's response to the recent update will be communicated to the Audit and Procurement Committee when appropriate.

- 2.3 **Council Tax Discounts / Exemptions Update** – In August 2013, the Audit and Procurement Committee received a briefing note on the response by officers to the Internal Audit review of Council Tax Discounts and Exemptions. This highlighted that as a consequence of the key audit finding that exemptions to council tax were still being given despite evidence that they were no longer valid, a project led by an officer from the Benefit

Fraud Team had been instigated to better understand the scale of this problem. To date, the project has resulted in revised bills to the value of £42,000 (in addition to the £63,000 identified in the Internal Audit review) being issued to the appropriate customers. There is an expectation that this figure will increase in the coming months when work on certain categories of exemptions / discounts has been completed.

2.4 Significant Frauds – Within the International Auditing Standards, there are clear expectations regarding the level of oversight that the Audit and Procurement Committee should have in relation to the risk of fraud within the Council. This includes an expectation that appropriate detail is provided in respect of significant fraud. We have applied the following principles when defining significant fraud:

- A financial impact in excess of £10,000.
- Frauds of under £10,000 can be included if the Internal Audit and Risk Manager considers this is justified by the nature of the fraud.
- In terms of establishing when a fraud has occurred, we have applied two approaches, dependant on the area where the fraud has been committed. Where these relate to benefits, these are defined as occurring when the case has been through the legal process and the case has been concluded. For all other cases, this is defined as occurring when the fraud has been detected and / or reported.

2.3.1 In the period April to September 2013, 15 significant frauds have been concluded. All relate to the area of benefit fraud, and in all but one case have resulted in successful prosecutions. In the one case, an alternative sanction was administered in line with the Council's Prosecution and Sanction Policy. A summary of these frauds is detailed at Appendix One.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from Director of Finance and Legal Services

5.1 Financial Implications

All fraud has a detrimental financial impact on the Council. In cases where fraud is identified, recovery action is taken to minimise the impact that such instances cause. This also includes action, where appropriate, to make improvements to the financial administration arrangements within the Council as a result of frauds identified.

5.2 Legal implications

All Housing Benefit fraud cases are conducted in accordance with the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA) and the Data Protection Act (DPA). In terms of corporate fraud cases, investigations are conducted in line with DPA and are referred to the police when considering criminal proceedings.

5.3 Human Resources Implications

Allegations of fraud made against employees are dealt with through the Council's formal disciplinary procedure. The Internal Audit and Risk Service are fully involved in the collation of evidence and undertake, or contribute to, the disciplinary investigation

supported by a Human Resources representative. Matters of fraud relating to employees can be referred to the police concurrent with, or consecutively to, a Council disciplinary investigation.

6. Other implications

6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

The scope and content of this report is not directly linked to the achievement of key Council objectives, although it is acknowledged that fraud can have a detrimental financial impact on the Council.

6.2 How is risk being managed?

The risk of fraud is being managed in a number of ways including:

- Through the Internal Audit and Risk Service's work on both the corporate and Benefit Fraud Team. This is monitored by the Audit and Procurement Committee.
- Through agreed management action taken in response to individual fraud investigations.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

Section 149 of the Equality Act 2010 imposes a legal duty on the Council to have due regard to three specified matters in the exercise of their functions:

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The "protected characteristics" covered by section 149 are race, gender, disability, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment. The duty to have due regard to the need to eliminate discrimination also covers marriage and civil partnership.

The Council acting in its role as Prosecutor must be fair, independent and objective. Views about the ethnic or national origin, gender, disability, age, religion or belief, political views, sexual orientation, or gender identity of the suspect, victim or any witness must not influence the Council's decisions.

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

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Appendix One – Significant Frauds April to September 2013

Ref	Value of Fraud (£)	Details of Fraud	Referral Mechanism
1	45,506.52	Living Together	DWP
2	24,159.00	Living Together	DWP
3	37,832.29	Non declared Income – Capital	DWP
4	10,761.04	Non declared Income – Working	DWP
5	15,607.40	Living Together	DWP
6	24,927.50	Living Together and Contrived Tenancy	DWP
7	12,165.44	Living Together	DWP
8	15,138.17	Living Together	DWP
9	17,190.47	Living Together	DWP
10	11,417.63	Living Together	DWP
11	15,295.66	Non declared Income – Tax Credit	Housing Benefits
12	22,780.63	Non declared Income – Working	Housing Benefits
13	18,396.04	Non declared Income – Working	Housing Benefits
14	15,788.06	Non declared Income – Working	DWP
15	10,898.08	Non declared Income – Pension	National Fraud Initiative