



Coventry City Council

Public report

Report to

Audit and Procurement Committee

3rd August 2015

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor Damian Gannon

Director approving submission of the report:

Executive Director of Resources

Ward(s) affected:

City Wide

Title:

Annual Fraud Report 2014-15

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 financial year 2014-15, focusing on corporate and benefit fraud work.

Recommendation:

The Audit and Procurement Committee is recommended to consider the outcome of the Council's response to fraud activity during 2014-15.

List of Appendices included:

None

Other useful documents:

Half Yearly Fraud Update 2014-15

<http://modern.gov.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10222&Ver=4>

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:

Annual Fraud Report 2014-15

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". Whilst the national strategy states that the public sector is dealing with increasing levels of fraud, the experience of the Council is that except for benefit fraud, levels of identified / reported fraud against the Council are at relatively low levels, in terms of both numbers and value.
- 1.2 This report documents the Council's response to fraud during 2014-15, 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** – A summary of the key outputs during this period is detailed below.

2.1.1 National Fraud Initiative (NFI) – The NFI exercise is now led by the Cabinet Office, who took over this function from the Audit Commission in March 2015. 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 work in 2014-15 has been focused on collating and submitting the datasets for the next exercise. The results were released in February 2015, and identified approximately 13,500 matches for the Council to consider. A summary of work undertaken to date on these matches is detailed below:

- Housing Benefit – Before the Benefit Fraud Team moved to the Department for Work and Pensions (DWP) in March 2015, the Council reviewed the matches to determine the most appropriate next steps. This included:
 - Referring the match to the DWP for investigation where fraud was suspected.
 - Where the assessment determined that an error rather than fraud had taken place, the matter was referred to the Housing Benefit Service to review.

This work has identified overpayments totalling £46,300, which are in the process of being recovered.

- Council Tax – Work in this area is focused on two areas:
 - Single Person Discount - We have delayed looking into these matches pending the completion of a separate review by the Council Tax Team. However we have now commenced this work, with the initial focus given to matches in Council Tax bands E and above. In total 163 matches were selected for review, although initial checks have been able to validate the discount in 95 cases. The remaining 68 matches are now being pursued through further checks and customer validation.
 - Rising 18's - These matches provide information on individuals in properties who have either recently turned 18 or will turn 18 in the near future. The nature of these matches is such that this is managed as an on-going piece of work and to date the Council Tax Team have cancelled 53 discounts totalling approximately £13,250.

- Other – This covers a wide range of activity, so priority has been given to known problem areas and high quality matches as judged by the Cabinet Office. A breakdown of these areas and the results to date are highlighted below:
 - Private Residential Care Homes Payments – Two cases were identified where the Council had continued to make payments to the care home after the resident had died, both of which related to out of city placements. This resulted in overpayments of £7695 which have now been recovered. Additionally, we are looking into mechanisms to reduce this issue from re-occurring.
 - Pension Payments – Two cases were identified where the Council had continued to make pension payments to retired employees after the individuals had died. This resulted in overpayments of £1564 which are being recovered.
 - Payroll Payments – Whilst previous exercises had identified instances where Council employees did not have the right to work in the UK, a review of all matches has found that that all employees have the right to work in the UK.

Updates on this exercise will be included in reports to the Audit and Procurement Committee during 2015-16.

2.1.2 Referrals and Investigations – Table two below indicates the number of referrals by source in 2014-15, with figures for the previous three financial years.

Table One - Fraud Referrals Received between 2011-12 and 2014-15

Source	Referrals 2011-12	Referrals 2012-13	Referrals 2013-14	Referrals 2014-15
Whistle blower	15	14	12	12
Manager	16	14	13	13
Complaint / External	1	-	4	1
Total	32	28	29	26

Whilst the figures for 2014-15 are comparable to those received in the previous two financial years, we need to be clear that we have no mechanism for determining the number of referrals the Council should receive on an annual basis. What we can say is that the expected increase in fraud as a consequence of the challenging economic climate does not seem to have materialised at the Council.

2.1.3 Quality of Referrals - Of the 26 referrals received, seven have led to full investigations. Reasons for referrals not resulting in a full investigation include:

- Poor quality referrals – In simple terms, in assessing some referrals, we have found no evidence to support the allegations. This does not necessarily mean that the allegations were false but can reflect a misinterpretation of the relevant events.
- Insufficient evidence on which to pursue an investigation - This can result from (i) a whistle blower contacting us anonymously and not providing any means of contacting them 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.

2.1.4 Type of Allegations - A breakdown of the nine investigations carried out in 2014-15 (which includes two outstanding from 2013-14), by type of allegation, is detailed below.

- Financial irregularities / theft (four) - These relate to thefts of cash.
- Attendance (five) - This relates to allegations that employees are falsifying their timesheets by claiming to be at work when this is not the case.

2.1.5 Outcomes – Of the nine investigations, seven have now been completed. The following outcomes were achieved:

- One officer was dismissed through the disciplinary process.
- Two officers resigned during the investigation / disciplinary process.
- In three cases, a final written warning was given to officers.
- In one case, it was determined that a resetting of standards was the most appropriate action.

2.1.6 Payment Audit (Error) – In December 2013, the Council introduced a new finance system, Agresso, which incorporated a new Accounts Payable module. Whilst processes were put in place to oversee / manage the transition period from the old to the new system, a risk was identified that the same invoice could be paid in both the old and the new systems without being detected. As a result, a proactive review of transactions from both Oracle and Agresso system was undertaken to identify whether any duplicate payments have, in error, been made to suppliers.

Comparison of the transactions in Oracle and Agresso identified that, in total, 116 invoices had been paid in both systems, with a total value of £135,500. Of this, we found that £110k had already been identified and repaid to the Council at the time of our review. The remaining £25.5k identified through our review has now also been repaid to the Council. Whilst the level of duplicate payments identified was significant, this was due to a one-off situation and does not reflect the normal control environment around invoice payments to suppliers.

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

Table One: Sanctions Administered by the Benefit Fraud Team

	2011-12	2012-13	2013-14	2014-15
Administered Sanctions	189	174	190	106*
Investigators (FTE) in Year	5.7	4.3	4.6	4
Sanctions Per Investigator	33	40	41	27

* Performance up to December 2014

2.2.1 Whilst the performance in 2014-15 is significantly down on previous years, this is due to the following:

- The number of referrals received by the Benefit Fraud Team reduced significantly in the latter half of 2014-15. This stemmed from transition arrangements agreed with the Department for Work and Pensions (DWP) for when the team transferred to the DWP in March 2015, which resulted in:
 - All joint working cases being led on by the DWP, irrespective of who received the initial allegation.
 - The Council stopped receiving allegations at the end of January 2015, with these referred instead to the DWP.
- Given that the Council is no longer responsible for investigating benefit fraud, we do not receive notification from the DWP on the outcome of investigations. As a result, we have decided not to report figures for the final quarter of 2014-15 as we only have limited information regarding sanctions awarded in this period.

The work of the Team in 2014-15 has contributed to the identification of overpayments (fraud and non-fraud) totalling approximately £773,000, which is being pursued for recovery.

2.2.2 Post Benefit Fraud Team Transfer to the DWP – As part of the transfer of the Benefit Fraud Team to the DWP, the Council has had to consider the potential impacts that this had on fraud arrangements in the Council. The impact was partly offset by the fact that responsibility in legislation for investigating benefit fraud has moved from local authorities to the DWP. However, in light of the Council's on-going responsibility for Council Tax, a team of two was set up in March 2015 to respond to the risk of fraud and error in this area (e.g. Council Tax support, exemptions and discounts).

Updates on the work of this team will be included in reports to the Audit and Procurement Committee during 2015-16.

2.3 Significant Frauds – Within the International Auditing Standards, there are clear expectations around 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 around 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 justified by the nature of the fraud.
- In terms of establishing when a fraud has occurred, we have applied two approaches, depending on the area where the fraud has occurred. 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 fraud, this is defined as occurring when the fraud has been detected and / or reported.

2.3.1 In the period October 2014 to March 2015, no significant frauds have been identified.

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 the Executive Director Resources

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:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- 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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