



Coventry City Council

Public report

Report to

Audit and Procurement Committee

26th September 2016

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

Director approving submission of the report:

Executive Director of Resources

Ward(s) affected:

City Wide

Title:

Annual Fraud Report 2015-16

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 2015-16.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud activity undertaken in the financial year 2015-16.

List of Appendices included:

None

Other useful documents:

Half Yearly Fraud Update 2015-16

<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10800&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 2015-16

1. Context (or background)

- 1.1 Fraud in the public sector has a national focus through the publication of "Fighting Fraud and Corruption Locally - The Local Government Counter Fraud and Corruption Strategy". Whilst the national strategy states that the level of fraud in the public sector is significant, the current trends in fraud activity includes areas which Coventry City Council does not have responsibility for, for example, social housing, and the 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 2015-16, 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 The Internal Audit Service is responsible for leading on the Council's response to the risk of fraud. The work of the team has focused on four main areas during 2015-16, namely:

- Council Tax
- National Fraud Initiative
- Referrals and investigations considered through the Council's Fraud and Corruption Strategy
- Proactive work

A summary of the key activity that has taken place during 2015-16 is detailed below.

- 2.2 Council Tax – Work undertaken in this area has focused on the following:

- Reviewing Council Tax Exemptions – This was the main area of work undertaken in 2015-16. This reflects our view that there is an inherent risk of fraud / error in this area as the Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption. The work in 2015-16 has resulted in:
 - 105 exemptions have been removed from customers' accounts.
 - Revised bills have been issued amounting to approximately £120,000.
 - £102,000 of this money has been paid to the Council.

A rolling programme of reviews is now in place, which includes scope to extend the work to the area of discounts.

- Council Tax Referrals / proactive reviews – As a result of validating concerns received from Council Tax linked to single person discounts, and a targeted review of Council Tax Support claims in payment, a total of 10 discounts / claims have been cancelled, resulting in overpayments / revised bills being issued of £15,500.

2.3 National Fraud Initiative (NFI) – The NFI exercise is led by 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 work in 2015-16 has focused on following up the matches which were released in February 2015 (approximately 13,500 matches). In addition to the outcomes previously reported to the Audit and Procurement Committee in August 2015, which in total identified £56,000 of overpayments, the work in 2015-16 focused on the matches received in relation to Council Tax. In the last update to Audit and Procurement Committee in December 2015, we reported that 82 single person discounts had been cancelled totaling approximately £30,250. Since then, a further 97 discounts totaling £14,350 have been cancelled.

Mechanisms are in place to ensure that recovery action is taken in relation to all overpayments identified from the NFI exercise. In 2016-17, work will focus on collating and submitting the data for the next exercise.

2.4 Referrals and Investigations – Table one below indicates the number of referrals by source in 2015-16, with figures for the previous three financial years.

Table One – Fraud Referrals Received between 2012-13 and 2015-16

Source	Referrals 2012-13	Referrals 2013-14	Referrals 2014-15	Referrals 2015-16
Whistle blower	14	12	12	5
Manager	14	13	13	14
External	-	4	1	2
Total	28	29	26	21

In considering this information, we need to be clear that there is no way of determining the number of referrals that the Council should receive on an annual basis and it is very difficult to anticipate or identify the reasons behind fluctuations in numbers. However, the number of referrals received in 2015-16 through the Council’s Whistleblowing Procedure is lower than previous years, which does potentially indicate the need to refresh employees’ awareness in relation to this process. This issue will be raised with colleagues from Human Resources and will be linked to the planned review / update of the Procedure in 2016-17.

2.4.1 Of the 21 referrals received in 2015-16, nine have led to full investigations. The reasons for referrals not resulting in a full investigation include (a) our initial assessment does not find any evidence to support the allegations, and (b) the nature of the event means it is impractical to pursue further.

2.4.2 In addition to the nine investigations highlighted in 2.4.1 above, a further two investigations were carried forward from 2014-15. The majority of the investigations carried out were linked to attendance concerns and the theft of money / assets or other activities linked to obtaining a financial benefit. Five of these investigations were still on-going at the end of 2015-16. In the other six cases, three officers resigned during the disciplinary process, in one case it was determined that a resetting of standards was the most appropriate action and in two cases, the allegation was found not to have been substantiated.

2.5 Proactive work – The Council’s response to fraud also considers an element of proactive work to ensure that all key fraud risks are considered. In the last update to Audit and Procurement Committee in December 2015 we reported the work undertaken to date, namely updating the Council’s fraud risk assessment and participation in a procurement pilot in-conjunction with the Home Office and West-Midlands police.

2.5.1 Since then, in-conjunction with a third party, we have undertaken a proactive review of payments made to Council suppliers to identify and recover (a) any duplicate payments which have been made and (b) any credit notes issued (or other credit transactions on suppliers' accounts) which the Council has not processed. This work has identified the following:

- Seven duplicate payments, amounting to £7200
- 102 credit items, amounting to £96,200. (A further transaction is currently being resolved, but will result in recovery of a further £55k)

The reasons behind these transactions are not always straightforward and reflect a variety of factors, some of which are outside of the Council's control. However, we have considered the internal control implications linked to this within the 2015-16 Internal Audit review of Accounts Payable.

2.6 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 Acting Chief Internal Auditor considers this justified by the nature of the fraud.
- In terms of establishing when a fraud has occurred, this is normally defined as occurring when the disciplinary process has been concluded, although in cases not involving employees, this will be linked to other management action, such as criminal prosecution.

In the period April 2015 to March 2016, 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

The Council has a duty under S151 of the Local Government Act to make arrangements for the proper administration of their financial affairs. To effectively discharge this duty, these arrangements include Council policies and procedures which protect the public purse through managing the risk of fraud and error.

All cases are conducted in line with the Data Protection Act 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 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 work of the Internal Audit Service, which 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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