



Coventry City Council

Public report

Report to

Audit and Procurement Committee

11th September 2017

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

Annual Fraud Report 2016-17

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 2016-17.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud activity undertaken in the financial year 2016-17.

List of Appendices included:

None

Background papers:

None

Other useful documents:

Half Yearly Fraud Update 2016-17

<http://democraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=11089&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 2016-17

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 remain at relatively low levels, in terms of both numbers and value.
- 1.2 This report documents the Council's response to fraud during 2016-17, 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 2016-17, 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 2016-17 is detailed below.

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

- Reviewing Council Tax Exemptions / Discounts – A rolling programme of reviews is undertaken on an annual basis to provide an appropriate response to the 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 / discount. The work in 2016-17 has resulted in:
 - 136 exemptions / discounts have been removed from customers' accounts. These exemptions / discounts were removed on the basis that the customer failed to report a change in circumstances. As such, they have been treated as an error, rather than a fraudulent application to obtain an exemption they were not entitled to.
 - Revised bills have been issued amounting to approximately £157,000.
 - £134,000 of this money has been paid to the Council to date. The outstanding balances are being recovered through agreed payment instalment arrangements or are subject to the Council's standard recovery arrangements in relation to Council Tax.

- Council Tax Referrals – The Council receives referrals from both internal and external sources linked to concerns around the payment of council tax support or council tax discounts / exemptions. Table one below indicates the number of referrals by source in 2016-17.

Table One – Council Tax Fraud Referrals Received 2016-17

Source	Referrals 2016-17
C/F from 15/16	4
Housing Benefits	25
Council tax	4
Members of the public	11
Other	1
Total	45

Whilst the vast majority of cases are passed to the Department Of Work and Pensions to investigate under agreed arrangements (i.e. where housing benefit is also in payment), we validated six concerns in 2016-17 linked to the payment of council tax. This has resulted in revised bills / overpayments of around £19,000 being issued, of which £13,000 has been paid to date.

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. In 2016-17 our work has focused on the following:

- Collating and submitting the data for the next exercise. This involved the submission of 15 datasets from across the Council. The results were released in January 2017, and identified approximately 11,000 matches for the Council to consider. The bulk of this work will commence in April 2017 and the Committee will be advised of the outcomes in future reports.
- Whilst the NFI exercise takes place every two years, Council Tax matches relating to the award of single person discounts are received on an annual basis as they are matched to the new electoral register which is published each December. In 2016-17, we have followed up those matches relating to council tax bands E and above. In total 159 matches were reviewed and as a result ten single person discounts were cancelled. This has resulted in revised bills / overpayments of around £14,000 being issued, of which £7000 has been paid to date.

2.4 Referrals and Investigations – Table two below indicates the number of referrals by source in 2016-17, with figures for the previous three financial years.

Table Two – Fraud Referrals Received between 2013-14 and 2016-17

Source	Referrals 2013-14	Referrals 2014-15	Referrals 2015-16	Referrals 2016-17
Whistle blower	12	12	5	5
Manager	13	13	14	15
External	4	1	2	1
Total	29	26	21	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 through the Council's Whistleblowing policy in the past two years does potentially indicate the need to refresh employees' awareness in relation to this process. This action was delayed pending the review / update of the Whistleblowing policy which was approved by the Audit and Procurement Committee in April 2017, and consequently is now being pursued with colleagues from Legal Services and Human Resources.

2.4.1 Of the 21 referrals received in 2016-17, eight have led to full investigations. The reasons for referrals not resulting in a full investigation include (a) our initial assessment / fact finding does not find any evidence to support the allegations, (b) appropriate action has already been taken, and (c) the nature of the event means it is impractical to pursue further.

2.4.2 In addition to the eight investigations highlighted in 2.4.1 above, a further five investigations were carried forward from 2015-16. Of the thirteen investigations, seven related to fraud / theft or other activities linked to obtaining a financial benefit, whilst the remaining six cases involved code of conduct issues including un-authorised absence.

Three out of the total 13 investigations are still on-going, whilst of the remaining ten:

- In one case, the officers involved received final / written warnings.
- In two cases linked to Business Rates, revised bills were issued amounting to £10,200.
- In five cases, the officer left their post during the disciplinary process.
- In two cases, the officer was dismissed from the Council's employment.

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 2016-17, this work included consideration of the Organised Crime Procurement Pilot report published by the Home Office in December 2016. As a result, a specific audit review on this issue has been included in the 2017-18 audit plan. In-conjunction with a third party, we have also undertaken a proactive review of payments made to Council suppliers. This work has recovered payments to date totaling £181k, the detail of which will be reported to a future meeting of the Audit and Procurement Committee as a specific item.

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 2016 to March 2017, 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 Director of Finance and Corporate 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

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 if appropriate are referred to the Police for investigation.

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 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 Service's work on fraud, which is monitored by the Audit and Procurement Committee.

- Through agreed management action taken in response to fraud investigations and / or proactive reviews.

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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