



**Report to**

Audit and Procurement Committee

2nd September 2019

**Name of Cabinet Member:**

Cabinet Member for Policy and Leadership – Councillor G Duggins

**Director approving submission of the report:**

Deputy Chief Executive (Place)

**Ward(s) affected:**

City Wide

**Title:**

Annual Fraud and Error Report 2018-2019

---

**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 and error activity undertaken by the Internal Audit Service for the financial year 2018-2019.

**Recommendation:**

The Audit and Procurement Committee is recommended to note and consider the anti-fraud and error activity undertaken in the financial year 2018-19.

**List of Appendices included:**

None

**Background papers:**

None

**Other useful documents:**

Half Yearly Fraud and Error Report 2018-2019

<https://edemocracy.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=11822&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 and Error Report 2018-2019

**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 for which Coventry City Council does not have responsibility, 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 and error during 2018-2019 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 and error. The work of the team has focused on four main areas during 2018-2019, 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 2018-2019 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 2018-19 has resulted in:
  - 129 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.
  - Revised bills have been issued amounting to approximately £142k.
  - £122k 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.

Given that on an individual basis, the amounts involved were not sizeable, these cases have been treated as an error (as oppose to fraud). The Council's approach to this reflects the need to use resources in the most cost-effective way. However, further investigation / action would be considered in the event that any individual case was considered to be significant (i.e. in excess of £10k).

- 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 2018-19.

**Table One – Council Tax Fraud Referrals Received 2018-19**

<b>Source</b>	<b>Referrals 2018-19</b>
Carried forward from 17/18	5
Housing Benefits	21
Other Council departments	11
Members of the public	0
Other	2
<b>Total</b>	<b>39</b>

Whilst a large number of these cases are passed to the Department of Work and Pensions to investigate under agreed arrangements (i.e. where housing benefit is also in payment), the Internal Audit Service validated 14 concerns in 2018-2019. Whilst the majority of these cases are linked to the payment of council tax / council tax support, five cases relate to the payment of housing benefit, where in light of the circumstances, it was more appropriate for the Council to take action directly, rather than pass the matter to the Department of Work and Pensions. In total, the 14 cases have resulted in revised bills / overpayments of around £36k being issued, of which £22k has been paid 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 / Housing Benefits.

- Other income – The work undertaken in relation to Council Tax has also led to:
  - Through establishing the true ownership of a property, this asset was then included within a service user's financial assessment to determine the contribution they should make to their care, and which had previously been disregarded. As a result, an overpayment of £22k was raised, along with ongoing charges of £1000 per month. In accordance with the rules around charges for social care costs, recovery of these monies has been deferred until the property is sold. Given the significant amount involved, further action in this case was considered, but taking into account all of the circumstances of the case, this has been treated as an error. This decision was based on the fact that there was no evidence that the true ownership of the property had been deliberately concealed, which was accepted given the unique factors of this case and the health of the service user.
  - The prevention of an exemption / discount from being awarded which the customer was not entitled to and which, if awarded, would have resulted in an overpayment of £1100 (plus an ongoing discount which the customer was also not entitled to).

- 2.3 National Fraud Initiative (NFI) –The NFI exercise is led by the Cabinet Office. The main 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 2018-2019 has been focused on collating and submitting the datasets for the next exercise. This was completed in early October 2018, with 12 datasets submitted. The first matches were released for investigation in February 2019 and will form part of the planned programme of work for 2019-2020. It should be noted that the Council has subsequently been informed that matches relating to immigration status, using data from the Home Office, will not now be released as part of this year’s exercise.
- 2.3.1 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 2018-2019, Internal Audit have followed up those matches relating to council tax bands D and above. In total 214 matches were reviewed and as a result ten single person discounts were cancelled in 2018-2019. This has resulted in revised bills being issued of around £11k.
- 2.4 Referrals and Investigations – From time to time, the Internal Audit Team receive referrals or are asked to assist with investigations relating to employee misconduct and other fraud against the Council involving external individuals. Table two below indicates the number of referrals by source in 2018-2019, along with figures for the previous three financial years.

**Table Two – Fraud Referrals Received between 2015-16 and 2018-19**

Source	Referrals 2015-16	Referrals 2016-17	Referrals 2017-18	Referrals 2018-19
Whistle blower	5	5	2	3
Manager	14	15	23	21
External	2	1	5	2
Total	21	21	30	26

It is important to note that there is no mechanism for determining the number of referrals the Council should receive on an annual basis and it is very difficult to anticipate or identify the reasons behind fluctuations in numbers. Whilst the number of referrals received through the Council’s Whistleblowing policy has reduced over time, a campaign to encourage employees to raise issues (both through Whistleblowing and other mechanisms) is due to be publicised in the near future. It is also worth noting that this information only reflects referrals made in respect of concerns relating to fraud and corruption and does not include other matters raised under the Whistleblowing Policy. (Details of all concerns raised during 2018-2019 under the Whistleblowing Policy, including those referenced in this report, are provided in a separate report to the Audit and Procurement Committee.)

- 2.4.1 Of the 26 referrals received in 2018-2019, nine 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 nine investigations highlighted in para. 2.4.1 above, a further five investigations were carried forward from 2017-2018. Of the fourteen investigations, thirteen related to fraud / theft or other activities linked to obtaining a financial benefit, whilst the other case involved a code of conduct issue.

Three out of the total fourteen investigations are still on-going, whilst of the remaining eleven:

- In one case, the officer involved received a final written warning.
- In one case, the officer left their post during the disciplinary process.
- In one case linked to a Council supplier, this has been dealt with as a contract management issue.
- In one case linked to council tax, action was taken to correct the council tax liability on four accounts. (This case related to a wider fraud targeted at two high street banks where the individuals fraudulently applied to become liable for council tax in order to obtain proof of identity / address and open bank accounts for criminal purposes).
- In six cases, the allegation was found not to have been substantiated.
- In one case, action was taken to cease a direct payment being made to a service user within Adult Social Care.

2.4.3 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 2018-2019, this work has included:

- Review and update of the Council's Fraud and Corruption Strategy, which was considered by the Audit and Procurement Committee in June 2018 and approved by the Cabinet Member for Policy and Leadership in July 2018.
- A fraud awareness e-learning tool has been made available to staff. This both highlights some of the common types of fraud in local government and provides details of how concerns can be reported.
- Face to face awareness sessions have also been undertaken with staff from Adult Social Care in relation to direct payment fraud.
- The Council was part of a group of West-Midlands authorities who took part in a pilot data matching project run by the Cabinet Office to detect fraud and error in Business Rates. This involved review of around 470 matches. As well as assisting the Cabinet Office to shape the future direction of this activity as part of the main National Fraud Initiative, the project resulted in revised bills being issued in seven cases, totalling around £20k. Given the value of the individual cases, these have been classed as an error.

2.5 Actions taken to prevent fraud / error - As part of the work carried out by Internal Audit which is linked to fraud and error, consideration is given as to whether control improvements can be made to prevent further incidents from occurring in the future. During 2018-2019, this has included the following:

- The annual review form for Disabled Persons Relief in respect of Council tax has been amended to ask for confirmation that the individual is still resident in the property.
- Awareness has been raised with staff within Council Tax regarding fraudulent attempts to obtain liability for council tax and the need to remain alert for this moving forward.

- Through the termly Finance and Audit newsletter, awareness has been raised with schools around specific fraud risks which could affect them and how they should report concerns around fraudulent activity.

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 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 2018 to March 2019, 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. In total, during 2018-2019, around £230k was identified from the work of Internal Audit in relation to fraud and error and is subject to the Council's standard arrangements for recovery of monies owed.

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 2018 and if appropriate are referred to the Police for investigation.

## **6. Other implications**

### **6.1 How will this contribute to achievement of the Council's plan?**

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?**

#### 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.

### **6.4 Equality and Consultation Analysis (ECA)**

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) Climate Change and the environment**

No impact

### **6.6 Implications for partner organisations?**

None



**Report author(s):**

**Name and job title:**

Karen Tyler  
Chief Internal Auditor

**Directorate:**

Place

**Tel and email contact:**

Tel: 024 76972186

Email: Karen.tyler@coventry.gov.uk

Enquiries should be directed to the above person.

<b>Contributor/approver name</b>	<b>Title</b>	<b>Directorate or organisation</b>	<b>Date doc sent out</b>	<b>Date response received or approved</b>
<b>Contributors:</b>				
Michelle Salmon	Governance Services Officer	Place	13/8/2019	13/8/2019
Paul Jennings	Finance Manager Corporate Finance	Place	13/8/2019	13/8/2019
<b>Names of approvers: (officers and members)</b>				
Barry Hastie	Director of Finance and Corporate Services	Place	13/8/2019	20/8/2019
Adrian West	Members and Elections Team Manager	Place	13/8/2019	13/8/2019
Councillor G Duggins	Cabinet Member for Policy and Leadership	-	13/8/2019	19/8/2019

This report is published on the council's website: [www.coventry.gov.uk/meetings](http://www.coventry.gov.uk/meetings)