



Coventry City Council

Public report

Report to

Audit and Procurement Committee

25th January 2021

Name of Cabinet Member:

Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:

Director of Finance

Ward(s) affected:

City Wide

Title:

Annual Fraud and Error Report 2019-20

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 2019-20.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud and error activity undertaken in the financial year 2019-20.

List of Appendices included:

None

Background papers:

None

Other useful documents:

Half Yearly Fraud and Error report 2019-20

<https://edemocracy.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=12092&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 2019-20

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 and error during 2019-20 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 2019-20, 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 2019-20 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 normally undertaken on an annual basis to provide an appropriate response to the inherent risk of fraud / error in the area, as the Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption / discount. However, in 2019-20 only limited work has been undertaken in this area, given the focus of the Team's work on following up matches arising from the National Fraud Initiative (see 2.3 below). As a rolling programme of work, this is not viewed as significant. Notwithstanding this, the work undertaken has resulted in:
 - 20 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 £28k.
 - All of this money has now been paid to the Council.

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 2019-20.

Table One – Council Tax Fraud Referrals Received 2019-20

Source	Referrals 2019-20
C/F from 18/19	2
Housing Benefits	6
Council Tax	4
Members of the public	7
Other	11
Total	30

Whilst a significant number 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), the Internal Audit Service have validated six concerns to date in 2019-20, which has resulted in revised bills / overpayments of around £11k being issued, with £9.5k having been recovered 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. The results of the last exercise were released in January 2019 and identified approximately 10,000 matches for the Council to consider. A summary of the work undertaken in 2019-20 on these matches is detailed below:

- Around 4000 matches have been reviewed and processed. Given the high number of matches, priority has been given to known problem areas and key matches as judged by the Cabinet Office. However, changes introduced by the Cabinet Office in the risk rating approach and the release of additional matches under a pilot scheme using data held by the HMRC has required more focus to be given to this area of work in 2019-20.
- Table two overleaf highlights a breakdown of those areas where errors / overpayments have been identified. It is noted that the Council's work in this area was selected to be highlighted in the Cabinet Office's National NFI Report published in July 2020 as a case study to illustrate the effectiveness of the NFI in tackling fraud and error. As such the work undertaken represents recognised good practice:

Table Two – Breakdown of National Fraud Initiative results April 2019 to March 2020

Match type	Number of errors / discrepancies	Issue	Overpayments
Housing benefit claimants to student loans	6	Housing benefit claimants who failed to declare their student loan	£48,000 (includes outcomes reported by the Department of Work and Pensions)
Housing benefit claimants to taxi drivers	1	Housing benefit claimant who failed to declare the correct date they started work as a taxi driver	£250
Housing benefit claimants to pensions	1	Housing benefit claimant who failed to declare their occupational pension	£12,000
Housing benefit claimants to personal alcohol licenses	2	Other issues leading to housing benefit overpayments identified from review of matches	£24,000 (£20,500 of this has been classed as un-recoverable)
Housing benefit claimants to deceased	3	Housing benefit claimants who had died and the Council were not aware of the correct date their tenancy ended	£600 (£250 of this has been classed as un-recoverable)
Pensions to deceased	1	The Council has continued to pay a pension after the individual had died	£1200
Council tax support to pensions	1	Other overpayment – review of the data match led to identification that the claimant had moved out of the address but the liability had not been updated	£1700
Council tax support to council tax support	1	A customer in receipt of council tax support moved out of the area and failed to notify the Council	£1500
Council tax support to personal alcohol licenses	1	Council tax support claimant who failed to declare their full income	£1500

Council tax support to housing tenancy	1	A customer in receipt of council tax support failed to declare they were resident in another area	£1800
Council tax support to deceased	6	Other overpayments – In all cases whilst the Council were already aware the claimant had deceased, review of the data match led to identification that other persons should have been liable for the council tax	£5700
Council tax support to HMRC earnings and capital	12	Council tax support claimants who had failed to declare employment	£66,100
Council tax support to HMRC household composition	22	Council tax support / housing benefit claimants where review identified that other persons should have been liable for the council tax / household income was not fully declared	£106,000
Duplicate invoices	2	Duplicate creditor payments	£5000
Council tax to HMRC household composition	4	Council tax payers where review identified changes in liability / entitlement to discounts / benefits	£4800
Total	64		£280,150

- 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 year. In 2019-20, Internal Audit have completed the work started in 2018-19 to follow up those matches relating to council tax bands D and above and followed up matches from the 2019-20 exercise. In total, a further 21 single person discounts were cancelled in 2019-20. This has resulted in revised bills / overpayments being issued of around £20k.

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 2019-20, along with figures for the previous three financial years.

Table Two – Fraud Referrals Received between 2016-17 and 2019-20

Source	Referrals 2016-17	Referrals 2017-18	Referrals 2018-19	Referrals 2019-20
Whistle blower	5	2	3	3
Manager	15	23	21	16
External	1	5	2	1
Total	21	30	26	20

We need to be clear that we have 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. It is 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 2019-20 under the Whistleblowing Policy, including those referenced here are provided in section 2.7 of this report.

2.4.1 Of the 20 referrals received in 2019-20, seven 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 seven investigations highlighted in 2.4.1 above, a further three investigations were carried forward from 2018-19. Of the ten investigations, nine related to fraud / theft or other activities linked to obtaining a financial benefit, whilst the other case involved a code of conduct issue.

One out of the total ten investigations is still on-going, whilst of the remaining nine:

- In one case, which related to Adult Social Care, action was taken to change the care provider being used. In addition, around £2k is being recovered from the provider.
- In two cases, action was taken to cease / reduce a direct payment being made to a service user within Adult Social Care.
- In one case, whilst there was insufficient evidence to pursue the matter under the Council's disciplinary process, other action was taken by management / Human Resources to manage wider employment risks which were identified in the course of the investigation.
- In one case involving an external fraud against the Council, it was impractical to pursue the matter further. However, as a result of the investigation, a number of control improvements were identified and implemented in order to provide a robust response to the increased risk of fraud in this area. As a result, the Council prevented a further five attempts during the year to commit the same type of fraud.
- In one case, the officer left their post during the disciplinary process.
- In one case, the officer was dismissed from the Council's employment.

- In two cases, the allegation was found not to have been substantiated, although in both cases, control improvements were identified and implemented.

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 2019-20, this work has included:

- Continuing delivery of face to face awareness sessions with staff from Adult Social Care in relation to direct payment fraud.
- Participation in a regional workshop to assist in development of the new national fraud and corruption strategy for local government.

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 2019 to March 2020, no significant frauds have been identified.

2.7 Whistleblowing - During 2019-20, the Council received six whistleblowing disclosures. A summary of the disclosures made by type and the response is provided in Table Three below. Whilst all concerns are taken seriously, the response will differ on a case by case basis. In some cases, if the disclosure has been made anonymously and insufficient details have been provided, the Council may be restricted in the action it can take. However, typically a preliminary fact-finding investigation will be undertaken which if required, will result in a full investigation and formal action being considered.

Table Three –Whistleblowing disclosures 2019-20

Number	Nature of concern (grounds for whistleblowing)	Response
1	Health and Safety	Substantiated – additional / remedial works undertaken to address issues raised. Local procedure developed to prevent re-occurrence of similar issues.
2	Fraud	Not substantiated
3	Fraud	Investigation on-going
4	Other	No further action – did not satisfy grounds for whistleblowing. Employee advised of appropriate route to raise concern.
5	Breach of a legal obligation	Investigation on-going
6	Fraud	Not substantiated

2.7.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Fraud and Corruption Tracker provides annual benchmarking information relating to counter fraud activity across all local authorities. In the 2019 survey, respondents reported a total of 755 whistleblowing cases. The figures reported indicate that the number of disclosures received by the Council is comparable to the national average of six whistleblowing disclosures per local authority. It is also worth noting that employees do not have to use the Whistleblowing Policy to raise concerns and are able to resolve matters using other routes if they wish to do so, for example through discussion with their line manager or reporting concerns to one of the “prescribed persons” set out in the Public Interest Disclosure (Prescribed Persons) Order 2014, such as the Health and Safety Executive.

2.7.2 In 2019-20, the Council launched a campaign “I have a concern” to promote to employees’ different ways in which they can raise concerns about work, including how to raise an issue through the whistleblowing process.

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 the Director of Law and Governance

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 2019-20, around £340k has been 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 (unless otherwise stated.)

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 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) Climate Change and the environment

No impact

6.6 Implications for partner organisations?

None

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