



Coventry City Council

## Public report

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A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of a significant fraud required to be kept private in accordance with Schedule 12A of the Local Government Act 1972 as amended. The grounds for privacy are that it contains which is likely to reveal the identity of an individual. The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

### Report to

Audit and Procurement Committee

25<sup>th</sup> 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:

Half Yearly Fraud and Error Report 2020-21

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### Is this a key decision?

No

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### 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 during the financial year 2020-21 to date.

### Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti- fraud and error activity undertaken during the first half of the financial year 2020-21 (subject to consideration of the private report on significant fraud.)

**List of Appendices included:**

None

**Background papers:**

None

**Other useful documents:**

None

**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:**

Half Yearly Fraud and Error Report 2020-21.

**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 Notwithstanding the above, it is recognised that the risk of fraud during emergency situations such as the pandemic is higher than at other times. This includes an inherent risk of fraud in emergency programmes which local authorities have been required to administer on behalf of government, particularly in relation to grants paid to businesses. This risk has been explicitly acknowledged by government in guidance issued to local authorities. As such, the Internal Audit Service have specifically included this within its anti-fraud work undertaken in 2020-21.
- 1.3 This report documents the Council's response to fraud and error during the first half of the financial year 2020-21 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 three main areas during 2020-21, namely:
  - Business Support Grants
  - National Fraud Initiative
  - Referrals and Investigations considered through the Council's Fraud and Corruption Strategy

A summary of the key activity that has taken place during 2020-21 to date is detailed below.

- 2.2 Business Support Grants - In response to Covid-19, the government announced there would be support for businesses in the form of grant funding schemes. Whilst local authorities are required to administer these schemes on behalf of government, the Council remains responsible for ensuring the proper administration of financial affairs within the local authority, including these grants. From an anti-fraud perspective, there are two important points to note in relation to these schemes:
  - The increased risk of fraud / error as highlighted in section 1.2 of this report.

- The need to ensure that grants are paid to businesses on a timely basis, with low friction controls required pre-payment to enable local authorities to make payments as quickly as possible and further reliance placed on post-event assurance to effectively manage the risk of fraud.

2.2.1 Internal Audit have given advice to service areas on appropriate low friction controls as part of the grant application and assessment process, including for example, upfront fraud prevention clauses. In addition, the Internal Audit Service have led on the post-event assurance process, which has encompassed the following:

- Undertaking risk assessments in relation to each grant scheme to identify specific fraud risks.
- Using the results of risk assessments to develop assurance plans to mitigate against residual risks.
- Undertaking post-event assurance checks and reporting on outcomes to Government on a monthly basis. This has included the use of Spotlight, the Government’s digital assurance tool, and other open-source checks.
- Where assurance checks identify potential fraud or error in grant payments, co-ordinating investigations and ensuring appropriate action is taken (e.g. reclaiming funds.)

2.2.2 During the period April to September 2020, this work focused on three grant schemes; the Small Business Grant Fund, the Retail Hospitality and Leisure Grant Fund and the Discretionary Grant Fund. In total, payments amounting to around £51 million have been made under these schemes, providing support to over 4500 businesses, with resources for post-event assurance work allocated both within the Internal Audit Plan and the wider corporate fraud and error resource within the Service. The majority of the work on these schemes is now complete. Table One below summarises the results in respect of fraud / error identified (these figures also include cases dealt with directly by the Business Rates/Economic Development Team):

**Table One – Business Supports Grants Fraud and Error**

	<b>Number of cases</b>	<b>Value</b>	<b>Recovered to date</b>
Grants classified as fraudulent	25	£300k	£90k
Grants classified as ineligible for funding	28	£350k	£274k

2.2.3 In addition to the claw back of funds paid fraudulently / in error, action has been taken to report suspected organised, large scale and systematic fraud to appropriate national agencies. This includes a number of cases whereas a result of effective intelligence sharing across the Regional Counter-Fraud Group, timely action was taken to prevent a large-scale cross boundary impersonation fraud, amounting to £400k.

2.2.4 The Department of Business, Energy and Industrial Strategy have confirmed that local authorities will not be held financially accountable for any erroneous payments which are not recovered, subject to Councils’ having taken reasonable steps to manage the risk of fraud and taking appropriate action to recover overpayments. This position is reflected

within the monthly financial returns submitted to Government regarding grant expenditure and the Council is continuing to actively pursue overpayments.

- 2.2.5 Whilst those cases which have been identified as fraudulent / ineligible is low in comparison with the overall number / value of grants awarded (around 1%), it is nonetheless important that appropriate action is taken to provide effective fraud control and protect the public purse. During the course of the pandemic, the government have announced further grant schemes for businesses and updates on the assurance work linked to these will be provided in future reports to the Audit and Procurement Committee.
- 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 2020-21 has been focused on collating and submitting the datasets for the next exercise. This was completed in early October 2020, with eight datasets submitted. We expect the matches to be released for investigation in February 2021. The Cabinet Office have also responded to the increased risk of fraud in covid-19 emergency relief funding and have extended its remit initially to include data matching on grants paid to businesses. This dataset is currently being collated and will be submitted by the end of January 2021, with the results expected later in the year.
- 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 2020-21, along with figures for the previous three financial years.

**Table Two - Fraud Referrals Received between 2017-18 and 2020-21**

Source	Referrals 2017-18	Referrals 2018-19	Referrals 2019-20	Referrals 2020-21 to date
Whistle blower	2	3	3	1
Manager	23	21	16	9
External	5	2	1	2
Total	<b>30</b>	<b>26</b>	<b>20</b>	<b>12</b>

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. 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.

- 2.4.1 Of the twelve referrals received, 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, one further investigation was carried forward from 2019-20. Of the eight investigations, six related to fraud / theft or other activities linked to obtaining a financial benefit, whilst other two cases involved a code of conduct issue.

Four out of the eight investigations are still on-going, whilst of the remaining four:

- In one case, the officer was dismissed from the Council's employment.

- In one case, the officer left their post during the disciplinary process.
- In two cases, the concern was not substantiated.

2.5 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 2020 to September 2020, one significant fraud has been concluded. Details of this are provided in a private report to the Audit and Procurement Committee.

2.6 Council tax – Whilst the Internal Audit Service normally undertake a rolling programme of reviews of council tax exemptions and discounts, this work has not been progressed during the period April to September 2020, given the focus on business grant work. As a rolling programme of work, this is not viewed as significant and some work in this area has commenced in the second half of the year.

2.6.1 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 three below indicates the number of referrals received by source during the first half of the financial year 2020-21.

**Table Three – Council Tax Fraud Referrals Received April to September 2020**

Source	Referrals 2020/21 to date
Housing Benefits	6
Council Tax	1
Members of the public	1
Other	6
<b>Total</b>	<b>14</b>

Whilst appropriate 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 two concerns in 2020-21, which has resulted in revised bills / overpayments of around £14k being issued, of which £8K has been recovered to date.

### 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 / error 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 section 151 of the Local Government Act 1972 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 / error 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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