



Coventry City Council

Public report

Report to

Audit and Procurement Committee

27th September 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 2020-21

Is this a key decision?

No – this is a monitoring report

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 2020-21.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud and error activity undertaken in the financial year 2020-21.

List of Appendices included:

None

Background papers:

None

Other useful documents:

Half Yearly Fraud and Error report 2020-21

<https://edemocracy.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=12271&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 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 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 four main areas during 2020-21, namely:

- Business Support Grants
- National Fraud Initiative
- Referrals and investigations considered through the Council's Fraud and Corruption Strategy
- Council Tax

A summary of the key activity that has taken place during 2020-21 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. 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 2020-21, there have been a number of grant schemes announced by government which has reflected various periods of local and national restrictions imposed as a result of the pandemic. A summary of the schemes and number / value of grants issued as at July 2021 is provided in Table One below:

Table One – Business grant schemes

Grant Scheme	Number of grant payments issued	Value of payments issued
Small business grant fund / Retail, hospitality and leisure business grant fund	4029	£48,015,000
Discretionary grant fund	269	£2,685,000
Additional restrictions grant	3710	£10,757,039
Local restrictions support grant	6670	£19,280,166
Christmas Support payment	92	£92,000
Restart grant	1663	£12,382,142
Total	16,433	£93,211,347

2.2.3 Over the course of the year the assurance process has also continued to evolve, with more checks required to be undertaken pre-payment as well as continuing with post-event assurance work. This has included use of the National Fraud Initiative bank account and active company verification tool. As such, this work has required a significant and on-going level of resource from Internal Audit, which has been allocated from both within the Internal Audit Plan and the wider corporate fraud and error resource within the Service. It is also anticipated that the assurance work will continue throughout 2021-22. Table Two overleaf summarises the results in respect of fraud / error identified to date across all of the grant schemes ((these figures also include cases dealt with directly by the Business Rates/Economic Development Team):

Table Two – Business Supports Grants Fraud and Error

	Number of cases	Value	Recovered to date
Grants classified as fraudulent	38	£391k	£135k
Grants classified as ineligible for funding	99	£899k	£495k

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 where, as 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 (BEIS) have confirmed that local authorities will not be held financially accountable for any erroneous payments which are not recovered, subject to Council's 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. Guidance has now been issued by BEIS in relation to returning recovered funds and referring those debts which the Council have been unsuccessful in recovering to the Department for further action. Internal Audit are assisting in the co-ordination of this work.
- 2.2.5 The number of cases which have been identified as fraudulent / ineligible remains low in comparison to the overall number / value of grants awarded (<1%). However, it is nonetheless important that appropriate action is taken to provide effective fraud control and protect the public purse. Further updates on this assurance work will be provided in future reports to the Audit and Procurement Committee.
- 2.3 National Fraud Initiative - 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. The first matches were released in February 2021 and will form part of the planned programme of work for 2021-22. The Cabinet Office also responded to the increased risk of fraud in covid-19 emergency relief funding and extended its remit to include data matching on grants paid to businesses. This dataset was submitted in January 2021, with these matches also forming part of the work programme for 2021-22.
- 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 2020-21, publication of the register was delayed until January 2021). These matches will be followed up in 2021-22.
- 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 three overleaf indicates the number of referrals by source in 2020-21, along with figures for the previous three financial years.

Table Three - Fraud Referrals Received between 2017-18 and 2020-21

Source	Referrals 2017-18	Referrals 2018-19	Referrals 2019-20	Referrals 2020-21
Whistleblower	2	3	3	4
Manager	23	21	16	14
External	5	2	1	6
Total	30	26	20	24

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 24 referrals received in 2020-21, 14 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 14 investigations highlighted in 2.4.1 above, one investigation was carried forward from 2019-20. Of the 15 investigations in total, eight related to fraud / theft or other activities linked to obtaining a financial benefit, whilst the other six cases involved a code of conduct issue.

Three out of the total 15 investigations are still on-going, whilst of the remaining twelve:

- In one case involving a possible external fraud against the Council, there was insufficient evidence to pursue the matter further. However, as a result of the investigation, around £4k is being recovered from the organisation and control improvements have been put in place.
- In two cases, the officer left their post during the disciplinary process.
- In one case, the officer was dismissed from the Council's employment.
- In eight cases, the allegation was found not to have been substantiated, although in five of these cases, other appropriate actions were identified and implemented.

2.5 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 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. In 2020-21, only limited work has been undertaken in this area, given the focus on business grant work. As a rolling programme of work, this is not viewed as significant. Notwithstanding this, the work undertaken has resulted in:
 - 22 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 £49k.

- £34k 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 Four below indicates the number of referrals by source in 2020-21.

Table Four – Council Tax Fraud Referrals Received 2020-21

Source	Referrals 2020-21
Housing Benefits	9
Council Tax	2
Members of the public	2
Other	14
Total	27

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 ten concerns to date in 2020-21, which has resulted in revised bills / overpayments of around £21k being issued, with £13k having been recovered to date.

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 2020 to March 2021, one significant fraud has been concluded. Details of this were provided to the Audit and Procurement Committee in January 2021.

3. Results of consultation undertaken

None

4. Timetable for implementing this decision

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 2020-21, around £74k (excluding business grants) 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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