



Coventry City Council

Public report

Report to

Audit and Procurement Committee

26th September 2022

Name of Cabinet Member:

Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:

Chief Operating Officer (S151 Officer)

Ward(s) affected:

City Wide

Title:

Annual Fraud and Error Report 2021-22

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 2021-22.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud and error activity undertaken in the financial year 2021-22.

List of Appendices included:

None

Background papers:

None

Other useful documents:

Half Yearly Fraud and Error report 2021-22

[Agenda for Audit and Procurement Committee on Monday, 31st January, 2022, 2.30 pm - Coventry City Council](#)

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 2021-22

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 2021-22.
- 1.3 This report documents the Council’s response to fraud and error during 2021-22 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 2021-22, 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 2021-22 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. A summary of the schemes and number / value of grants issued 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	£48,108,000
Discretionary grant fund	469	£2,659,000
Additional restrictions grant	4558	£12,248,000

Local restrictions support grant	3512	£11,183,000
Christmas Support payment	92	£92,000
Closed Business Lockdown payment	1579	£7,616,000
Restart grant	1663	£12,382,000
Omicron Leisure and hospitality grant	482	£1,726,000
Total	16,384	£96,014,000

2.2.1 As previously reported to the Audit and Procurement Committee, the internal Audit Service have led on the delivery of pre and post-payment assurance checks which have been required by the Department of Business, Energy, and Industrial Strategy (BEIS) to manage the risk of fraud and error in these schemes and are assisting in the administration of the debt recovery process in-conjunction with BEIS. This has required a significant and ongoing level of resource from Internal Audit during 2021-22, including requirements to provide evidence to BEIS of the checks undertaken. Table two summaries the results in respect of fraud / error identified to date (June 2022) across all of the grant schemes (these figures also include cases dealt with directly by the Business Rates / Economic Development Teams):

Table Two – Business Support Grants Fraud and Error

	Number of cases	Value	Recovered to date
Grants classified as fraudulent	61	£471,000	£152,000*
Grants classified as ineligible for funding	135	£987,000	£867,000*
Total	196	£1,458,000	£1,019,000

*This reflects grants recovered in full and does not include amounts recovered to date through ongoing payment arrangements.

2.2.2 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. The Council is continuing to actively pursue overpayments, including referring those debts which the Council have been unsuccessful in recovering to BEIS for further action, in line with guidance. It is noted that the number of cases which have been identified as fraudulent / ineligible remains low in comparison to the overall number / value of grants awarded (1%).

2.2.3 In addition to supporting the Council's delivery of business grant schemes, the Internal Audit Service have worked with the Revenues Service to ensure that there are appropriate controls in place within the Energy Rebate Scheme (announced in February 2022) to manage the risk of fraud and error.

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. The results of the last exercise were released in February 2021. Given the number of matches released (around 10,000), a risk-based approach is used in following up the matches. Table three below provides a breakdown of those areas where errors / overpayments have been identified in 2021-22 (it should be noted that matches relating to single person discount are released annually and the results here relate to the matches released in December 2020.)

Table Three – Breakdown of National Fraud initiative results 2021-22

Match Type	Purpose of match	Number of errors / discrepancies	Overpayments
Housing Benefit claimants to student loans	To identify housing benefit claimants who have failed to declare that they are in receipt of a student loan	5	£15,724
Housing benefit claimants to taxi drivers	To identify housing benefit claimants who have failed to declare employment income	3	£5706
Waiting list to Housing Tenants	To identify individuals who have registered for housing using a different address to the one on the housing rents system	1	£803
Council Tax Support to Payroll	To identify individuals who have failed to declare employment income	2	£2147
Council tax support to council tax support	To identify individuals that are claiming council tax support from one or more local authority at the same time	3	£11,983
Council tax support to housing benefit claimants	To identify individuals that are claiming council tax support who are also claiming housing benefit at another address	1	£1255
Council tax support to HMRC earnings and capital	To identify council tax support claimants who have failed to declare employment income / capital	4	£14,781
Council tax support to HMRC household composition	To identify council tax support claimants who have failed to declare other household members	5	£8314

Council tax to electoral register	To identify where the householder is claiming a council tax single person discount, yet the electoral register suggests that there is more than one adult in the household.	21	£26,435
Total		45	£87,148

In addition to these results, the Cabinet Office have estimated forward savings of £46,434 from preventing future incorrect payments relating to these cases. Where overpayments have been identified, these are subject to standard recovery arrangements

- 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 four below indicates the number of referrals by source in 2021-22, along with figures for the previous three financial years.

Table Four - Fraud Referrals Received between 2018-19 and 2021-22

Source	Referrals 2018-19	Referrals 2019-20	Referrals 2020-21	Referrals 2021-22
Whistleblower	3	3	4	1
Manager	21	16	14	20
External	2	1	6	2
Total	26	20	24	23

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 23 referrals received in 2021-22, 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.

In addition to the seven investigations highlighted in 2.4.1 above, three investigations were carried forward from 2020-21. All ten investigations related to fraud / theft or other activities linked to obtaining a financial benefit. Three out of the total ten investigations are still on-going, whilst of the remaining seven:

- 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 one case involving an external fraud against the Council, revised Council Tax bills have been issued amounting to £3600 (and whilst not classed as fraudulent, new bills have been raised across ten customer's accounts amounting to £10k.)

- In one case involving an external fraud against the Council amounting to £26k, two individuals were prosecuted and the case is now the subject of a Proceeds of Crime Act hearing. This case related to the fraudulent misuse of direct payment funding.
- In two cases, the allegation was found not to have been substantiated, although other appropriate actions were identified and implemented.

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 2021 to March 2022, one significant fraud has been concluded (as detailed in 2.4.1 above.)

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 2021-22 given the focus on other priorities and unplanned absence within the Service. As a rolling programme of work, this is not viewed as significant.

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 Four below indicates the number of referrals by source in 2021-22.

Table Five – Council Tax Fraud Referrals Received 2021-22

Source	Referrals 2021-22
Housing Benefits	6
Council Tax	5
Members of the public	4
Other	48
Total	63

Whilst appropriate cases are passed to the Department of Work and Pensions to investigate under agreed arrangements (i.e. where housing benefit / universal credit is also in payment), the Internal Audit Service have validated ten concerns in 2021-22, which has resulted in revised bills / overpayments of around £14k being issued, which are subject to standard recovery arrangements.

2.7 The local government transparency code requires local authorities to publish information in relation to fraud on an annual basis. This information is detailed in Table Six below.

Table Six – Counter Fraud Transparency Data

Requirement	Response
Number of occasions powers under the Prevention of Social Housing Fraud Regulations 2014 (or similar) have been used	0 – the Council does not own its own housing stock.
Total number of employees undertaking investigations and prosecutions of fraud	3 (estimated FTE 1.25)
Total number of professionally accredited counter fraud specialists	3 members of the Internal Audit Service hold the CIPFA Certificate in Investigatory Practice
Total amount spent by the authority on the investigation and prosecution of fraud	£3912 (direct costs only, does not include salary costs)
Total number of fraud cases investigated	18 (note this only includes corporate fraud investigations, not investigations linked to the NFI or business grants)

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 Chief Operating Officer (Section 151 Officer) 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 2021-22, around £141k (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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