



Coventry City Council

Public report

Report to

Audit and Procurement Committee

24th July 2023

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 2022-23

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 2022-23.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud and error activity undertaken in the financial year 2022-23.

List of Appendices included:

None

Background papers:

None

Other useful documents:

Half Yearly Fraud and Error report 2022-23

[Agenda for Audit and Procurement Committee on Monday, 20th March, 2023, 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 2022-23

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 2022-23 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 2022-23, 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 2022-23 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. Table two summaries the current position in respect of the recovery of grants paid fraudulently / in error identified 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	Debt assigned to BEIS	Still under recovery processes (including ongoing payment arrangements)
Grants classified as fraudulent	64	£489,495	£209,624	£217,613	£62,258
Grants classified as ineligible for funding	179	£1,435,599	£1,339,107	£82,264	£14,229
Total	243	£1,925,094	£1,548,731	£299,877	£76,486

2.2.2 Where the Council have taken all reasonable steps to recover the grant but have been unsuccessful, they are able to refer the debt to BEIS. Under the legal framework for debt referral, the Council is required to provide evidence of the steps undertaken to ensure the grant was awarded in a reasonable and practicable way and demonstrate they have undertaken all reasonable and practicable steps to reclaim incorrectly paid grant funds. BEIS will only accept responsibility for the debt where they are satisfied these conditions have been met. If they refuse the referral, they will seek reimbursement of the affected grant from the Council. For all the grants referred to date, BEIS are satisfied that the Council have taken reasonable and practical steps and have accepted responsibility for the debts.

2.2.3 Processes are in place to regularly monitor the status of those debts which are still undergoing recovery action, including monitoring of on-going payment plans to ensure they are still being adhered to and taking decisions around further referrals to BEIS. There are currently 13 grants which are being recovered under a payment plan and 9 grants which are subject to ongoing recovery action (including pending referral to BEIS.)

2.2.4 It is noted that the number of cases across all grant schemes which have been identified as fraudulent / ineligible remains low in comparison to the overall number / value of grants awarded (2%.) Whilst some comparative data has been published by BEIS, work across all grant schemes is still ongoing and information will be provided to the Committee on this in future reports. Where debts are successfully reclaimed, these monies are returned to BEIS and a process has been established to return reclaimed funds which have not already been accounted for through grant reconciliations on a quarterly basis. To date, the Council has returned £486,300.

2.2.5 In addition to the work on debt recovery in 2022-23, Internal Audit have also led on complying with the evidence requirements for sample checks undertaken by BEIS across all of the grant schemes. This involved collating and submitting evidence in relation to a sample of grants to demonstrate that the grant was awarded correctly in line with the eligibility criteria for each

grant scheme and that appropriate and proportional assurance checks were undertaken. In total, evidence in relation to 58 grants was provided to BEIS. BEIS have concluded that in relation to the cohort 1 schemes (covering the Small Business Grant Fund, the Retail, Hospitality and Leisure Grant Fund and the Local Authority Discretionary Grant Fund) the Council followed an appropriate and robust process in completing the minimum assurance checks when awarding and paying a grant. The results in relation to the other grant schemes are expected later this year and will be reported 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. Internal Audit work in 2022-23 has been focused on collating and submitting the datasets for the next exercise. This was completed in early October 2022. The matches were released in January 2023 and form part of the planned programme of work for 2023-24. Matches relating to council tax single person discounts are released annually and now fall under the responsibility of the Revenues and Benefits Service.

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 2022-23, along with figures for the previous three financial years.

Table Three - Fraud Reports Received between 2019-20 and 2022-23

Source	Reports 2019-20	Reports 2020-21	Reports 2021-22	Reports 2022-23
Whistleblower	3	4	1	1
Manager	16	14	20	10
External	1	6	2	2
Total	20	24	23	13

It is important to note that there is no mechanism for determining the number of reports the Council should receive on an annual basis and it is very difficult to anticipate or identify the reasons behind fluctuations in numbers. Notwithstanding this, the Internal Audit Service are planning to undertake a programme of fraud awareness work in 2023-24. 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 13 referrals received in 2022-23, six 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, e.g. the fraud has been prevented, and (c) the nature of the event means it is impractical to pursue further.

In addition to the six investigations highlighted in 2.4.1 above, three investigations were carried forward from 2021-22. All nine investigations related to fraud / theft or other activities linked to obtaining a financial benefit. Three out of the total nine investigations are still on-going, whilst of the remaining six:

- In one case, the officer left their post during the disciplinary process.
- In three cases, the concern was not substantiated, although other appropriate actions were identified and implemented.
- In one case, the officer received a final written warning and was moved to a different post.

- In one case involving an external fraud against a School amounting to £25k, Internal Audit assisted the School to seek redress under the Contingent Reimbursement Model Code for Authorised Push Payment Scams. As a result, the bank awarded the School £15k in compensation. This case related to a push payment fraud by a 3rd party whereby they deceived the School into sending them money. Following identification of the fraud, staff at the School have received fraud awareness training from the West Midlands Police Cyber Crime Unit. Alongside this, Internal Audit have used the School Finance newsletter to raise awareness of this type of fraud across all local authority maintained schools, giving practical advice on how to prevent such frauds from occurring.

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 2022 to March 2023, one significant fraud has been concluded (as detailed in 2.4.1 above.)

2.6 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 Four – 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 0.5)
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	£0 (direct costs only, does not include salary costs)
Total number of fraud cases investigated	6 (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 Chief Legal Officer

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.

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 One Coventry Plan?

www.coventry.gov.uk/councilplan/

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 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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Councillor G Duggins	Cabinet Member for Policy and Leadership	-	5/7/2023	5/7/2023
Councillor R Lakha	Chair of Audit and Procurement Committee	-	5/7/2023	13/7/2023

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