

AUDIT COMMITTEE – 15th JUNE 2016

ANNUAL FRAUD REPORT 2015/16

Executive Summary

- i. According to figures from the National Fraud Authority (June 2013), it has been estimated that the annual loss to Local Government due to fraud (excluding Benefit Fraud) is £2.1billion. As a local authority responsible for the administration of large amounts of assets and finances, Barnsley MBC is a target for fraudsters. it is therefore important to maintain robust policies and procedures to safeguard the Council's integrity against potential fraud.
- ii. From April 2015, all fraud functions for the Authority were centralised within Internal Audit Services Corporate Anti-Fraud Team (CAFT). This has enabled the Council to focus its preventative and investigative resource to tackle the different types of fraud that may occur against a Local Authority.
- iii. The team covers a wide range of tasks including implementing the Anti-Fraud and Corruption Policy across the authority, providing a comprehensive counter-fraud service for all directorates, co-ordinating and managing the council's participation in the National Fraud Initiative (NFI), the introduction of council wide Fraud Awareness training and the prevention and detection of all types of fraud.

Report of the Head of Internal Audit and Corporate Anti-Fraud

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1. Purpose of the Report

- 1.1 This report provides an account of counter fraud related activity undertaken by Internal Audit's Corporate Anti-Fraud Team from 1 April 2015 to 31 March 2016.
- 1.2 The Corporate Anti-Fraud Team provides the Council with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.
- 1.3 This report provides information and assurance to the Audit Committee regarding a key aspect of the Authority's risk management, control and governance framework.

2. Recommendations

2.1 It is recommended that the Audit Committee:

- i. **Consider the Annual Fraud Report as part of the framework of assurances to support the Annual Governance Statement;**
- ii. **Continue their support in embedding a culture of zero tolerance and high levels of awareness regarding fraud and corruption;**

3. Background

- 3.1 As a major employer continually seeking to change and transform how it delivers services, and one that is engaged in a range of partnerships and activities, the Council is inherently vulnerable to acts of fraud, corruption or irregularity committed both from within and outside the Council.
- 3.2 In the current economic climate there is a perceived increased risk of fraud due to a tightening of available credit and borrowing. This is certainly true in local government, where budgetary pressures, large spending cuts and difficult decisions over priorities may weaken controls and increase the likelihood of fraud.
- 3.3 Greater focus is now being placed on local government to protect public funds and Barnsley Council is committed to ensure that increasingly scarce resources are used for the purposes intended, preventing unnecessary loss to fraud or theft and to tackle areas where abuse may occur.

- 3.4 To safeguard public funds and ensure these funds are used for their intended purpose the Council has a zero tolerance approach supported by a strong policy statement and commitment to tackling fraud and corruption. This is backed up by various policies, procedures and codes linked to the Anti-Fraud and Corruption Strategy to help ensure that the people of Barnsley and stakeholders have confidence that the affairs of the Council are conducted in accordance with the highest standards of probity and accountability and that Members and officers demonstrate the highest standards of personal and professional honesty and integrity.
- 3.5 It is of course an unrealistic expectation to remove and avoid all fraud or loss from an organisation, and particularly one as big and diverse as a local authority. However with a concerted effort from elected members, senior management and all employees it is reasonable to expect that we can reduce and ultimately minimise the incidence and impact of fraud and corruption and thus release valuable resources for front line services.
- 3.6 The Audit Committee have received update reports summarising work undertaken in respect of anti-fraud work and investigations.
- 3.7 Senior managers continue to be aware and accept that anti-fraud and corruption measures start with them. Internal Audit and the Corporate Anti-Fraud Team provide an important advisory and guiding role but cannot assume the responsibility for operational anti-fraud controls within services and systems.
- 3.8 The following sections summarise the activity during the year covering corporate pro-active anti-fraud matters and reactive investigation work.

4. Pro-active Anti-fraud and Corruption Activity 2015/16

Structure and Roles

- 4.1 Internal Audit's Corporate Anti-Fraud Team acts on behalf of the Director of Finance, Assets and Information Services in ensuring the Council has appropriate arrangements to deter, detect and investigate fraud. This role includes the following:
- Driving the continual development of a framework of anti-fraud policies and procedures;
 - Raising awareness and understanding of fraud risks and developing mechanisms to maximise the opportunities for fraud risk reporting;
 - Responding to Whistleblowing allegations, referrals and other concerns including those received under the Council's Money Laundering Policy;
 - Investigation of reports of financial or other irregularity;
 - Liaising with South Yorkshire Police to support criminal prosecutions;
 - Delivering a programme of proactive anti-fraud reviews;
 - Providing advice and support to managers across the Council and within schools in their own investigation of irregularities;
 - Providing advice and recommendations to managers on appropriate controls to help prevent and detect fraud and corruption;
 - Monitoring anti-fraud activity across the Council.

- 4.2 In discharging this wide range of roles Internal Audit has a dedicated Corporate Anti-fraud Team comprising a Principal Auditor for countering fraud and corruption, a Senior Corporate Fraud Investigator and a Corporate Fraud Investigator.
- 4.3 In 2015/16 the Corporate Anti-Fraud Team had a total budgeted plan of 580 days. In the first year of work the team has undertaken preventative anti-fraud work totalling 165 days whilst 415 days were spent on reactive investigations.
- 4.4 Advice, guidance and instruction have been given to departmental managers throughout the year as a matter of course, in order to equip them when undertaking their own investigations.

Developing an Anti-Fraud Culture

- 4.5 In seeking to minimise losses to fraud and corruption, the ideal situation is one where those contemplating these acts are deterred from doing so. An anti-fraud and corruption culture whereby fraudulent activity is seen as unacceptable, combined with individuals' doubts as to whether acts of fraud and corruption can succeed, can serve as a powerful deterrent. Deterrence can in practice be achieved where strong prevention, detection, investigation, sanction and redress processes are in place and effective publicity and communication are developed around them.
- 4.6 In the work to develop the anti-fraud culture throughout the Council, the Corporate Anti-Fraud Team is always looking for new ways to promote the anti-fraud message to reach the largest possible audience. By stressing to all, not only the unacceptability of fraud and corruption but also its serious consequences, the anti-fraud culture is strengthened. Our reactive investigation work and our commitment to take seriously any reported allegations of suspected wrongdoing positively seek to discourage potential fraudsters.

Guidance and Training

- 4.7 Publicising the anti-fraud message, the successes achieved and the work undertaken by the Corporate Anti-Fraud Team to prevent, detect and investigate fraud, apply sanctions and seek redress stimulates the internal anxieties of individuals and influences their subsequent behaviour. Such messages are communicated in corporate bulletins and press releases and will continue to feature during the current year.
- 4.8 The Corporate Anti-Fraud Team has also delivered a high level fraud awareness session to Berneslai Homes Board Members. Further training is planned for 2016/17.

Preventing Fraud

- 4.9 Effective preventative systems are put in place to try and ensure that if fraud is attempted, it will be discovered and fail.

- 4.10 Fraud prevention in the Council means ensuring that sound policy and procedural measures are in place in all Council departments. Internal Audit and the Corporate Anti-Fraud Team continuously review reported system weaknesses to identify areas of high fraud risk. Follow-up audits or themed anti-fraud audits are undertaken in all departments where common weaknesses have been identified.
- 4.11 Internal Audit is a member of the West and South Yorkshire Fraud Investigators Group (SWYFIG) which comprises West and South Yorkshire Internal Audit investigators.
- 4.12 The group meets twice a year with the following aims:-
- To promote and share best practice with regard to fraud and corruption prevention, detection and investigation work;
 - To discuss areas of interest which will to assist group members in undertaking reactive and proactive counter fraud work;
 - To discuss investigation, data matching, risk assessment and other specialist techniques/methodologies/training opportunities that could be of benefit in the course of duties;
 - To discuss current/future legislative issues, data matching exercises and other developments that impact on LA counter fraud strategy and operational work;
 - To share and benchmark anonymised information on cases and other work to identify best practice within the group that can be used proactively at other local authorities to prevent, detect, identify and/or recover losses due to fraud and corruption;
 - To share with other group members intelligence regarding local/regional/national issues and training which could impact on other members; and
 - To create contact points in each local authority, for future liaison, advice

National Fraud Initiative

- 4.13 The NFI is a regular (biennial) data matching exercise. As the name suggests, the exercise is carried out on a national basis with the vast majority of the UK's local authorities taking part. The aim of the exercise is to identify possible cases of fraud and error within public bodies, e.g. local authorities, central government, the NHS. The Council has routinely participated in this initiative from its inception in 1996/97, and is currently addressing the matches received in January 2015 and the Council Tax matches received in January 2016.
- 4.14 The Council provided information relating to 12 mandatory sets of data. These datasets consisted of information from Payroll, Housing Rents, Creditors, Private Residential Care Homes, Blue Badges, Residential Parking Permits, Licensing, Market Traders, Insurance, Personal Budgets, Council Tax and Electoral Registration.
- 4.15 The datamatches relating to the 2014-2015 exercise were received at the end of January 2016. Data filters, recommended and supplied by the Cabinet Office, were used to sort the matches based on the quality of the data in the

match. There is no requirement for the Authority to review 100% of the matches, as long as an effective system of sampling is used to manage the risk of identifying frauds and errors.

- 4.16 The exercise has highlighted 32 cases of fraud or error which has resulted in £135,879 being identified to be recovered by the Council. It should be noted that the majority of these errors (£129,748) related to duplicate creditor payment error which was reported to the Audit Committee in April 2016.
- 4.17 As a result of these findings the Director of Finance has requested that the CAFT undertakes further datamatching exercises.
- 4.18 Data will be submitted for the 2015/2016 NFI exercise later this year (October 2016).

5. Reactive Fraud Work

Detecting and Investigating Fraud

- 5.1 Despite strong preventative measures, there are inevitably a minority of dishonest people who will be intent on attempting fraud and corruption and finding new ways to evade preventative systems or indeed taking an opportunistic risk. When this happens it is essential that we are able to promptly detect instances of fraud and corruption that have occurred.
- 5.2 The Council remains focussed in its commitment to take all necessary action to investigate fraud and take appropriate sanctions.
- 5.3 All of the Corporate Anti-Fraud Team members dedicated to preventative and investigative work are professionally qualified in this area.

Corporate Investigations

- 5.4 Corporate investigations are defined as fraud cases which relate to employee fraud or other third party fraud which does not fall within a specific service area such as council tax or tenancy fraud.
- 5.5 Since 1 April 2015 work in this area has included:
 - Advice to managers undertaking management investigations and disciplinary proceedings;
 - Review of the recruitment exercise within an Authority's service;

Council Tax Support (CTS) Investigations

- 5.6 As CTS has only been in legislation for three financial years the levels of fraud identified nationally are still relatively low. CAFT have identified fraudulent council tax support claims of £4,304.61 with additional savings of £2,100.60 identified since April 2015.

NB. The value of the fraud is the total council tax support fraudulently claimed with projected savings upto the end of the current financial year. The savings record the value of the overpayment had the fraud not been identified.

- 5.7 A summary of the Council Tax Support workload of CAFT for the period 1st April 2015 to 31st March 2016 is shown below.

Referrals	170
Accepted for investigation	20

- 5.8 A summary of referrals not pursued for investigation is shown in the table below.

Details	No.
Change in circumstance already known - no issue	20
Poor intelligence – not enough evidence to pursue	25
Referred to DWP for investigation	52
No benefit in payment – no issue	8
No evidence of fraud	37
Uneconomical to pursue - CTS adjustment less than £500	8
Total	150

Council Tax

- 5.9 CAFT have identified fraudulent council tax liability claims of £12,181.74 with additional savings of £951.46 identified since April 2015.

NB. The value of the fraud is the total council tax discount / liability fraudulently claimed / identified with projected savings up to the end of the current financial year. The savings record the value of the overpayment had the fraud not been identified.

- 5.10 A summary of the Council Tax workload of CAFT for the period 1st April 2015 to 31st March 2016 is shown in the table below.

Referrals	116
Accepted for investigation	23

- 5.11 A summary of referrals not pursued for investigation is shown in the table below.

Details	No.
Change in circumstance already known - no issue	15
Poor intelligence – not enough evidence to pursue	15
No evidence of fraud	63
Total	93

Review of Single Persons Discount

- 5.12 A pro-active data matching exercise to identify council tax payers fraudulently claiming a single person discount commenced in October 2015.
- 5.13 A total of 6,942 single person discount review letters were issued in respect of discounts which required follow-up.

- 5.14 The cancellations to date (1,179 accounts) have resulted in an additional £321,947 Council Tax income being raised across the identified Council Tax accounts.
- 5.15 In addition, CAFT have challenged a number of the above responses (104) and 70 taxpayers have subsequently confirmed that their declared date of change was incorrect. This has resulted in the discounts being removed from earlier dates and an increase of £20,699 Council Tax income being raised across the identified Council Tax accounts.
- 5.16 A total of 5,229 taxpayers returned their review forms which resulted in no impact on the discount e.g. property vacated, alternative discount applicable. However, a number of these taxpayers indicated that a single person discount should still be applicable (4,317). The Corporate Anti-Fraud Team will be following up a number of these returns to verify the entitlement.
- 5.17 A number of queries are still outstanding (534) and are being pursued by the Benefits, Taxation and Income Section. It should be noted that the majority of these (473) relate to unreturned review forms where the taxpayer also receives a council tax support reduction.
- 5.18 The review is not yet complete and additional outcomes will continue over the next few months.

Right to Buy (RTBs)

- 5.19 The number of RTB applications has continued to rise over the last 12 months with tenants benefiting from the scheme's discounts up to a maximum of £77,000.
- 5.20 With such large discounts available to prospective purchasers there is a greater risk of fraud, and to this effect the Corporate Anti-Fraud Team now apply an enhanced fraud prevention process to all new RTB applications.
- 5.21 The additional checks, which include financial and residential verification, provide assurance that tenants are eligible to the discount and fulfil the criteria of the scheme ahead of completion.
- 5.22 CAFT has undertaken checks against 131 RTB applications during the financial year 2015/2016.
- 5.23 Liaison with the RTB Team and the Council's Enforcement Unit has resulted in two RTB sales being stopped and the properties being recovered due to non-occupancy. One sale was stopped prior to a valuation being carried out and the second resulted in a saving of £27,360 i.e. the value of the discount which would have been applied.
- 5.24 The prevention work undertaken by the Corporate Anti-Fraud Team in respect of RTBs continues to protect valuable Council housing stock.

Housing/Tenancy Fraud

- 5.25 The Corporate Anti-Fraud Team have provided fraud awareness training to officers within Berneslai Homes. As a result of guidance given at the training sessions a number of Berneslai Homes officers have sought advice from CAFT in respect of tenancy fraud.
- 5.26 A basic investigative support service has been provided to Berneslai Homes to help identify potential fraudulent tenancies. This support has enabled Berneslai Homes to recover a property which was not being used by the tenant as their main home.
- 5.27 A summary of alleged tenancy fraud referrals received for investigation is shown in the table below.

Details	No.
Alleged non-residency – not pursued, no evidence of fraud	11
Alleged breach of tenancy agreement – not pursued, no evidence of fraud	1
Alleged breach of tenancy agreement – referred to Berneslai Homes for investigation	1
Allegation of sub-letting - not pursued, no evidence of fraud	1
Total	14

- 5.28 In November 2013, legislation criminalising tenancy fraud was brought into force. On conviction, tenancy fraudsters could now face up to two years in prison. The main types of Housing Tenancy Fraud are:
- **Application** - obtaining social housing under false pretences e.g. misrepresentation of identity or circumstances.
 - **Tenancy succession** - unauthorised retention of a property following the death or vacation of the tenant or tenants.
 - **Non-Residency** - property is obtained legally but then a change in circumstances means that the tenant moves out but keeps the tenancy running 'just in case'. In the vast majority of these cases Housing and Council Tax Support are in payment which means that there is no cost to the tenant in maintaining the ongoing tenancy.
 - **Sub-Letting** - whilst the Council can consent to lodgers in some circumstances, this fraud involves the unlawful sub-letting of a property by a tenant to others, usually for profit.

6. Key Priorities 2016/17

- 6.1 The need to respond quickly and comprehensively to allegations of fraud and corruption impacts on the ability to deliver proactive anti-fraud work. The Corporate Anti-Fraud Team will continue to advise managers to investigate lower risk referrals.
- 6.2 The Corporate Anti-Fraud Team has allocated 581 chargeable days for reactive and proactive fraud work in 2016/17.
- 6.3 The key priorities over the next few months are shown below. These will be

reported back to the Committee within the next update in approximately 3 months.

Ref	Action	Timescale
1	Development of additional BOLD Fraud Awareness E-Learning	July 2016
2	Council tax Single Person Discount Review	July 2016
3	Further data-matching exercise of creditor payments	July 2016
4	Review of counter fraud policy framework	September 2016
5	Investigation of instances of Council tax Reduction Scheme fraud	Ongoing

7. Local Area Implications

7.1 There are no Local Area Implications arising from this report.

8. Consultations

8.1 All audit reports are discussed with the main auditee. Individual audit reports are provided to the appropriate Executive and/or Assistant Director to apprise him/her of key issues raised and remedial actions agreed.

9. Compatibility with European Convention on Human Rights

9.1 In the conduct of investigations, the Corporate Anti-Fraud Team operates under the provisions of the Data Protection Act 1998, the Human Rights Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

10. Reduction of Crime and Disorder

10.1 An inherent aspect of counter fraud work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls. Additionally, Internal Audit Services ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

11. Risk Management Considerations

11.1 Whilst there are no specific risks emanating as a result of this report there are a range of risk issues worthy of consideration and note.

11.2 There is a risk to the control and governance of the Authority if management fail to implement recommendations. In mitigation Internal Audit has introduced a more rigorous 'follow-up' process to ensure the most significant issues are implemented. This is reported to the Audit Committee within the quarterly and annual reports.

12. Employee Implications

- 12.1 All employees are under an obligation through their contracts of employment to be honest and adhere to the Code of Conduct.
- 12.2 There will be further guidance and opportunities for all employees to ensure their personal awareness of anti-fraud and corruption measures continues to be high. Management are charged to ensure that awareness is high and maintained.

13. Financial Implications

- 13.1 There are no financial implications arising directly from this report. The costs of the Corporate Anti-Fraud Team function are included within the Authority's base budget.
- 13.2 There are financial consequences in both losses from fraud and also the cost of controls to minimise fraud. Internal Audit Services carefully assess both aspects of the financial consequences of fraudulent activity when making recommendations and advising management.

14. Background Papers

- 14.1 Various previous Audit Committee reports
Corporate Anti-Fraud and Corruption Policy and Strategy
Corporate Whistleblowing Policy

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