

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

### **AUDIT COMMITTEE – 7<sup>th</sup> DECEMBER 2016**

#### **CORPORATE ANTI-FRAUD TEAM PROGRESS REPORT**

##### **1. Purpose of the Report**

- 1.1 This report provides the Audit Committee with an account of the work of the Corporate Anti-Fraud Team from 1<sup>st</sup> April 2016 to 31<sup>st</sup> October 2016.

##### **2. Recommendations**

###### **2.1 It is recommended that:-**

- i. **The Audit Committee notes the progress made in the development of effective arrangements and measures to minimise the risk of fraud and corruption.**
- ii. **The Audit Committee continues to receive regular progress reports on internal and external fraud investigated by the Corporate Anti-Fraud Team.**

##### **3. Background Information**

- 3.1 The Audit Committee received details of progress in the Annual Fraud Report presented at the June meeting. This report highlights the work undertaken and progress in respect of fraud management during the first seven months of 2016/2017.
- 3.2 Details of sample fraud cases are reported at Appendix 1.

##### **4. Council Tax Support Investigations**

- 4.1 On 1<sup>st</sup> April 2013 Council Tax Benefit (CTB) was replaced by Council Tax Support (CTS). Council tax Benefit was a Social Security benefit and was administered under Social Security legislation whilst CTS is a Council Tax discount administered under the Local Government Finance Act.
- 4.2 As CTS has only been in legislation for two financial years the levels of fraud identified nationally are still relatively low, both locally (within the Yorkshire region) and nationally. CAFT have identified fraudulent council tax support claims totalling £3,057.92 since April 2016.
- 4.3 A summary of the Council Tax Support workload of CAFT for the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> October 2016 is shown below.

Referrals	103
Overpayment less than £500	6
Current investigations	5

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

Details	Numbers
Change in circumstance already known - no issue	1
Poor intelligence – not enough evidence to pursue	11
Referred to DWP for investigation	50
No benefit in payment – no issue	2
LA error	1
No evidence of fraud	27
<b>Total</b>	<b>92</b>

The majority of the above referrals were received via the Corporate Anti-Fraud Hotline (34) and online referrals (33). A further 17 referrals were received from anonymous letters from members of the public whilst the remaining 8 were referred from Benefits, Taxation and Income or Berneslai Homes.

- 4.5 CAFT have accepted five referrals for further follow-up and the outcomes of these investigations will be reported to the Audit Committee in due course.

## 5. Council Tax

- 5.1 CAFT have identified fraudulent council tax liability claims of £12,986.15 since April 2016.

- 5.2 A summary of the Council Tax workload of CAFT for the period 1 April 2016 to 31<sup>st</sup> October 2016 is shown in the table below.

Total referrals	172
Overpayment only	29
Currently under investigation	9

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

Details	Numbers
Change in circumstance already known - no issue	5
Poor intelligence – not enough evidence to pursue	10
No discount present	4
Referred to DWP	23
No evidence of fraud	92
<b>Total</b>	<b>134</b>

Most of the above referrals were received via the Corporate Anti-Fraud Hotline (51) and online referrals (37). A further 6 referrals were received from anonymous letters from members of the public whilst 20 were referred from Benefits, Taxation and Income or Berneslai Homes. The remaining 20 (which provided no evidence of fraud) followed investigations into a number of matches raised via the council tax pro-active data matching exercise which commenced earlier this year.

- 5.6 The bulk of the above data matching exercise has now been completed and cancellations (1,211 accounts) have resulted in an additional £331,044 Council Tax income being raised across the identified Council Tax accounts (This figure has previously been reported). CAFT continue to investigate remaining matches although

the majority have not provided any evidence of fraud as the taxpayers have provided alternate addresses for any additional individuals reported as resident as the property.

## **6 Right to Buys (RTB)**

- 6.1 The number of RTB applications has continued to rise from 40 in 2011/12 to 148 in 2015/16 following the increased discount (up to a maximum of £77K).
- 6.2 With such significant discounts available to prospective purchasers there is a greater risk of fraud. CAFT support the Right to Buy Team by applying an enhanced fraud prevention process to all new applications.
- 6.2 CAFT has undertaken checks against 147 Right to Buy applications as at the 31<sup>st</sup> October.
- 6.3 Thirteen of these applications have been referred to the DWP for further investigation due to the tenant being in receipt of DWP benefits. In addition, and as a result of CAFT investigations, two applications were withdrawn during the right to buy application process. However, It should be noted that neither application was identified as fraudulent.

## **7. Corporate Investigations**

- 7.1 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.
- 7.2 CAFT have provided advice to managers undertaking management disciplinary investigations including alleged misuse of the internet and alleged flexi-time abuse.

## **8. National Fraud Initiative (NFI)**

### Background

- 8.1 The NFI is the Cabinet Office's national data matching exercise and is designed to help participating bodies prevent and detect fraud and error. The Council has routinely participated in this initiative from its inception in 1996-1997.
- 8.2 The Council is required to provide the following mandatory sets of data:
  - Payroll
  - Trade creditors' payment history and trade creditors' standing data
  - Housing (current tenants) and right to buy
  - Housing waiting lists
  - Council tax reduction scheme
  - Council tax (required annually)
  - Electoral register (required annually)
  - Private supported care home residents
  - Transport passes and permits (including residents' parking and blue badges)
  - Insurance claimants
  - Licences – market trader/operator, taxi driver and personal licences to supply alcohol
  - Personal budget (direct payments)

- 8.3 CAFT co-ordinates the Council's involvement in the National Fraud Initiative (NFI), takes an active role in pursuing data provided through this means and advises improvements in the Council's systems in order to minimise future losses.
- 8.4 CAFT's approach to NFI is based upon the guidelines issued by the former Audit Commission, which recognises a number of key elements that participating organisations must have in place to ensure that the resources invested into the NFI are used as efficiently and effectively as possible. These are:
- Acting as key contact role for the Council;
  - Identifying and briefing information asset owners about the exercise;
  - Contacting data provider and providing data specifications and timetables for extraction and upload;
  - Reviewing and revising privacy notices to ensure that individuals are aware that their data is being used in order to prevent or detect fraud;
  - Co-ordination of the data submissions;
  - Equipping staff with the NFI application and appropriate knowledge;
  - Initial review;
  - Investigations into targeted datamatches to identify fraud/error; and
  - Tracking progress.

#### 2014/15 – National Outcomes

- 8.5 The national results of the 2014/15 NFI datamatching exercise were published by the Cabinet Office on 4<sup>th</sup> November 2016.
- 8.6 Between 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2016 the NFI has identified fraud, overpayments and errors across England totalling £65 million. The key outcomes of the exercise for the above period are as follows:
- £11.4 million of pension fraud and overpayments;
  - £13.7 million of fraudulent or wrongly received, council tax single person discount (SPD) payments; and
  - £29.8 million of housing benefit, state benefit and council tax reduction scheme overpayments;
  - 54 properties were recovered for social housing;
  - 52 employees were dismissed or asked to resign because they had no right to work in the UK;
  - 535 people were prosecuted;
  - 726 false applications were removed for housing waiting lists following a pilot exercise;
  - 23,063 blue badges were cancelled.
- 8.7 The report acknowledges that high levels of fraud detection through the NFI data matching are likely to indicate weaknesses in underlying controls that need to be investigated and strengthened. In contrast, data matching showing little or no fraud and error provides assurance about the effectiveness of controls.

#### 2014/15 – Barnsley Council's Outcomes

- 8.8 Comparison of datasets submitted by the Council to those submitted by other public bodies identified 14,460 matches. Of these, 2,366 had been categorised as high quality matches recommended for investigation.

- 8.9 Data filters, recommended and supplied by the Cabinet Office, were used to sort the remaining matches based on the quality of the datamatch. There is no requirement for the Council to review 100% of matches as long as an effective system of sampling is used to manage the risk of identifying frauds and errors.
- 8.10 Investigations into the 2014-2015 datamatches have identified overpayments totalling £136,149. (A breakdown of these overpayments has previously been reported).

#### 2016/17 Exercise

- 8.11 The 2016/17 exercise commenced on Monday 10<sup>th</sup> October when the mandatory datasets required from the Council were uploaded to the Cabinet Office's NFI website. The reports that are produced as a result of the datamatching exercise will be available to the Council in early 2017.
- 8.12 The value to the Council of the NFI, in addition to the identification and recovery of both fraud and error, is in its role as a deterrent for fraud and as a measure of assurance for the various systems to prevent and detect fraud or loss.

### **9. Tenancy Fraud**

- 9.2 CAFT provides a basic investigative support service 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.
- 9.2 A summary of alleged tenancy fraud referrals received for investigation during the period April to June 2016 is shown in the table below.

<b>Details</b>	<b>No.</b>
Alleged non-residency – not pursued no evidence of fraud	7
Alleged application fraud – not pursued no evidence of fraud	1
Alleged fraudulent attempt to succeed tenancy – not pursued no evidence of fraud	3
Allegation of sub-letting - not pursued no evidence of fraud	5
<b>Total</b>	<b>16</b>

- 9.3 Most of the above referrals were received anonymously from members of the public (4 to the Corporate Anti-Fraud Hotline and 3 letters). A further 4 referrals were received via Corporate Fraud Online Referral Forms whilst 5 were referred from Berneslai Homes (3), Benefits, Taxation and Income (1) and Social Services (1).
- 9.4 CAFT have accepted five referrals for further follow-up and the outcomes of these investigations will be reported to the Audit Committee in due course.

### **10. Financial Implications**

- 10.1 Whilst there are no direct financial implications arising from this report there are inherent financial issues concerning anti-fraud and corruption. An increase in controls may have cost implications, both in terms of additional checks, potentially slowing down service delivery, and computer system changes. Those costs have to be balanced against the risk of loss, whether because of fraud or general inefficiency. Any cost implications arising from the need to introduce additional controls and mitigations

will be discussed with management. The emphasis at all times will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

## **11. Risk Considerations**

- 11.1 Somewhat obviously, the process prompted by this work is focussed entirely on the effective assessment of fraud risk.
- 11.2 The loss of assets and resources as a result of fraud is included within the Strategic Risk Register.

**Contact Officer:** Head of Internal Audit and Corporate Anti-Fraud  
**Telephone:** 01226 773241  
**Date:** 24<sup>th</sup> November 2016

	Case Description	Result / Outcome
1.	<p><b>Tenancy Fraud</b> – An investigation was instigated following a referral from Berneslai Homes. Concerns had been raised by neighbours that the property was not being used as the tenant's main/sole residence.</p> <p>Financial records obtained using authorised powers under the Prevention of Social Housing Fraud Act supported the allegations of non-residency and the tenant was subsequently invited to attend an interview under caution.</p> <p>The tenant attended the interview but denied that she had parted with possession of the property. Explanations she provided in response to the evidence shown to her were weak. She also stated that neighbours who had provided witness statements confirming non-residency were lying.</p> <p>Having been presented with the evidence the tenant still denied any wrongdoing, but, at the end of the interview enquired how she could end her tenancy.</p>	The tenant submitted a notice to terminate her tenancy later that day and the keys to the property were returned to Berneslai Homes.
2.	<p><b>Right to Buy Application</b> – A referral was received from the Right to Buy Team who were concerned that the tenant had not occupied the property as their sole/main residence for the period of discount claimed (13 years).</p> <p>Checks undertaken by CAFT, including third party data background searches, identified that the tenant, although having a connection to the property, had not been occupied the property as a sole/main residence for the period claimed and subsequently qualified for a smaller discount (5 years).</p>	The tenant was notified of the reduced qualifying discount and the right to buy application was not pursued.

	Case Description	Result / Outcome
3.	<p><b>Council Tax Student Exemption</b> – A referral was received from Benefits, Taxation and Income following the expiry of a student exemption. Whilst cancelling the exemption the officer had noticed some account notes which suggested a second person may be resident in the property.</p> <p>Preliminary investigation checks undertaken by CAFT identified the second person to be the resident's partner.</p> <p>HM Land Registry checks established that the partner was not an owner of the property. However, other records, including financial records, linked the individual to the property.</p> <p>A letter issued to the council tax payer challenging the residency of the partner resulted in a phone call from the taxpayer. When the evidence of residence was put to her, the taxpayer accepted that her partner had lived at the property as his sole/main residence since February 2014.</p>	<p>The student exemption was withdrawn with effect from February 2014 and a 25% student discount applied.</p> <p>This resulted in an adjustment of £1.843.47 being added to the council tax account.</p>