



AUDIT COMMITTEE – 10th JUNE 2015

ANNUAL FRAUD REPORT 2014/15

Executive Summary

- i. Like any organisation of significant size and complexity Barnsley Metropolitan Borough Council is inherently vulnerable to risks of fraud and corruption. In response to these risks the Council has a range of mitigating controls including the Housing Benefit Investigation Section within Benefits and Taxation, enforcement officers in other services and dedicated anti-fraud and corruption resources within Internal Audit.
- ii. The Council's Housing Benefit Fraud Team transferred to the DWP's Single Fraud Investigation Service (SFIS) on 1st April 2015. The SFIS is not responsible for investigating non-benefit and local taxation fraud such as Council Tax Single Persons Discount or Local Council Tax Support which remains the responsibility of the Council. Having considered the loss of experienced investigation officers and, as part of Future Council restructures, the Corporate Anti-Fraud Team (CAFT) has been formed within Internal Audit and became fully effective from 1st April 2015.
- iii. 2014/15 has seen an increase in the number of irregular matters referred to Internal Audit. In total 20 referrals were received compared to 16 in 2013/14. These ranged from investigating issues around allegations of theft, insurance and Right to Buy frauds, financial irregularities by a third party against a Social Services client, attendance and working arrangement issues. 7 cases remained in progress at the end of the year.
- iv. Both the number of sanctions achieved by the Housing Benefit Investigation Section and the number of successful prosecutions increased slightly from 2013/14.
- v. Successful prosecutions have been widely publicised to ensure the maximum benefit is achieved as a deterrent.

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1. Purpose of the Report

- 1.1 This report provides a summary on the outcome of proactive and reactive anti-fraud and investigation work during 2014/15, with a particular focus on the work delivered by Internal Audit. It outlines some of the areas of emerging fraud risk and the Council's strategic and operational arrangements for managing these risks. The report also refers to areas identified as key priorities during 2015/16.
- 1.2 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;**
- iii. Receive regular update reports regarding the implementation and success of the Corporate Anti-Fraud and Corruption Strategy.**

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 The Audit Commission report entitled '*Protecting the Public Purse 2014 – Fighting fraud against local government*' published in November 2014 recorded that nationally, local public bodies detected slightly fewer frauds, 104,000, compared with 107,000 detected frauds the previous year. However, the value of detected frauds had increased from £178 million (2013) to £188 million (2014). More than half of detected fraud losses, £129 million, related to housing and council tax benefits.
- 3.3 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.

- 3.4 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.
- 3.5 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.
- 3.6 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.
- 3.7 The Audit Committee have received quarterly updates summarising work undertaken in respect of anti-fraud work and investigations. A six monthly Fraud Management Update Report was also presented mid 2014/15.
- 3.8 Senior managers continue to be aware and accept that anti-fraud and corruption measures start with them. Internal Audit provides an important advisory and guiding role but cannot assume the responsibility for operational anti-fraud controls within services and systems.
- 3.9 The following sections summarise the activity during the year covering corporate pro-active anti-fraud matters and reactive investigation work. Aspects of the activities around benefit fraud are also covered in the report.

4. Pro-active Anti-fraud and Corruption Activity 2014/15

Structure and Roles

- 4.1 Internal Audit 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 lead auditor for countering fraud and corruption. A Senior Corporate Fraud Investigator and a Corporate Fraud Investigator joined the Principal Auditor to create a dedicated Corporate Anti-Fraud Team with effect from 1st April 2015.
- 4.3 Internal Audit concentrated more resources on prevention as opposed to investigations during 2014/15. Consequently, more investigations were referred to departments to undertake (with Internal Audit support and supervision in many cases). However, it is likely that the number of internal investigations undertaken within Internal Audit will increase in the forthcoming year and beyond following the creation of the Corporate Anti-Fraud Team.
- 4.4 In 2014/15 Internal Audit budgeted for 68 days on proactive anti-fraud work and 50 days for reactive / investigative work. Actual work undertaken on anti-fraud work during 2014/15 totalled 114 days whilst 93 days were spent on reactive investigations.
- 4.5 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

- 4.6 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 such 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.
- 4.7 In the work to develop the anti-fraud culture throughout the Council, Internal Audit 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.
- 4.8 The Council's Corporate Anti-Fraud and Corruption Policy and Strategy emphasises the Council's commitment to the development of an anti-fraud culture. The overall headline action relates to consolidating the anti-fraud culture across all aspects of the Council. These steps will continue in

2015/16 including continuing the broad publicity campaign regarding anti-fraud and corruption matters.

- 4.9 The Internal Audit intranet site contains a dedicated anti-fraud and investigations page. In addition to relevant policies and procedures the page is updated with the latest news and developments to further publicise the anti-fraud message. It is proposed to refresh and revise the webpage following the creation of the Corporate Anti-Fraud Team.

Guidance and Training

- 4.10 Publicising the anti-fraud message, the successes achieved and the work undertaken by Internal Audit 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 will continue to feature during the current year.
- 4.11 Internal Audit has also delivered a high level fraud awareness session to Berneslai Homes Board Members and audit committee members of external clients.

Preventing Fraud

- 4.12 Effective preventative systems are put in place to try and ensure that if fraud is attempted, it will be discovered and fail.
- 4.13 Fraud prevention in the Council means ensuring that sound policy and procedural measures are in place in all Council departments. In conjunction with the Risk Management Section, Internal Audit 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.
- 4.14 Internal Audit is a member of the West and South Yorkshire Fraud Investigators Group (SWYFIG) which comprises West and South Yorkshire Internal Audit investigators.
- 4.19 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 pro-

actively 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

4.20 Internal Audit co-ordinates the Council's involvement in the National Fraud Initiative (NFI), which is the Audit Commission's biennial data matching exercise designed to detect fraud and error across the public sector.

4.21 The datamatches relating to the 2014-2015 exercise were received at the end of January 2015. Almost 900 matches have been completed and a further 35 are currently being investigated as at 28th May 2015. The investigations to date for example have resulted in the cancellation of 167 blue badges due to the death of the blue badge holder.

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 During 2014/15 Internal Audit received formal notification of 20 reported cases of fraud, theft or irregularity. Of these referrals 7 remained in progress at the year end. Details of these cases are shown under the Performance Summary.

5.3 The Council remains focussed in its commitment to take all necessary action to investigate fraud and take appropriate disciplinary and/or legal action.

5.4 The Internal Audit officer dedicated to preventative and investigative work during 2014/15 is professionally qualified in this area.

Applying Sanctions

5.5 Following the investigation of an alleged fraud by Internal Audit a report is issued to management recommending, where appropriate, action to rectify any control weaknesses. Where fraud is proven recommendations will extend to potential disciplinary action.

5.6 At the outset, each investigation is approached giving due consideration to an appropriate combination of criminal, civil, internal disciplinary and professional processes. Thus, assurance is given that those individuals who abuse the Council are dealt with appropriately, either financially or through other sanctions.

- 5.7 After any investigation, sanctions will be applied where fraud and corruption are proven to be present. This is done in a comprehensive, consistent and proportionate manner with all possible sanctions considered between disciplinary, civil or criminal action. However, the nature of internal investigations makes it difficult to quantify the results in monetary terms.
- 5.8 The diversity of the type of minor crime committed, e.g. abuse of the Council's I.T. Policy and Flexitime Policy, means that it is not possible to introduce parallel sanctions.

Seeking Redress

- 5.9 Due to the fact that the majority of cases investigated remain of a relatively minor nature, consideration is often given by management as to whether it is cost effective overall to seek financial redress in cases of losses to fraud or corruption.
- 5.10 Local action can be and is taken to recover money by using civil law. However, it is often considered more cost effective to simply dismiss fraudulent perpetrators. In cases of serious fraud, the Council have the opportunity to apply to the courts to make a restraining order or confiscation order.

Investigations

- 5.11 It is important to acknowledge that investigations are conducted independently and without prejudice. This is reflected in the number of cases where investigations have resulted in the exoneration of individuals against whom allegations have been made. There are other cases where the investigation has resulted in disciplinary action or criminal action based on the evidence obtained. However in some cases and despite strong suspicion, a lack of evidence has meant it has not been possible to prove wrongdoing.
- 5.12 The nature, scale and complexity of the referrals have been varied and included suspicions of financial irregularity, financial abuse, mismanagement, staff behaviour and conduct issues, and corruption. Some of these matters are very complex and therefore take time to investigate, often requiring various reports to be produced to management, Members, whistleblowers and the police. They also involve time spent in dealing with any subsequent disciplinary process or working with the police to pursue criminal action.
- 5.13 Internal Audit have conducted their own investigations or supported management with their investigation work in response to all these referrals.
- 5.14 The matters raised and investigated can be analysed as follows, together with a comparison to previous years:-

Result of cases	Number 2014/15	Number 2013/14	Number 2012/13	Number 2011/12
Employee dismissed.	2	0	1	1
Employee resigned prior to disciplinary action being taken.	1	1	2	1
Police referrals.	0	1	4	0
Criminal conviction	0	0	2	0
Informal warning given to employee	0	1	3	0
Warning issued to employee as a result of disciplinary action.	1	1	3	3
No evidence found to support allegations.	4	3	4	4
No evidence found to support allegations, but recommendations made to improve system controls.	1	0	4	3
Unable to evidence any irregularity. Incident raised with Information Governance as a security incident	0	0	1	0
Not progressed due to employee being made redundant prior to completion of the investigation	0	1	1	0
Payment successfully recovered.	0	0	0	1
Alleged fraudulent insurance claims withdrawn	2	0	0	0
Reduced insurance pay-out agreement reached as a result of a RIPA surveillance exercise	0	0	0	1
Referred to Office of Public Guardian	1	0	0	0
Employee reinstated following an appeal	0	1	0	0
Withdrawal of Right to Buy application	1	0	0	0
Fraudulent attempt to alter bank account details	0	0	0	1
Ongoing investigations as at 31 st March.	7	7	4	13
Transfer of work from special investigations to corporate audits	0	0	0	2
Total	20	16	29	30

5.15 13 of the 20 referrals referred to above were completed during the year. The remaining 7 cases are currently under investigation. Examples of cases investigated included the following:

Theft of Cash and Assets

5.16 Cases involving employees in the theft of cash, assets or other irregularity have been investigated by management with advice and support provided by Internal Audit.

Fraudulent Insurance Claims

- 5.17 Two personal injury claims were not pursued by the claimants following correspondence issued by the Council's claims handler stating that there was evidence that the claims were fraudulent. The investigations resulted in potential insurance claim savings of upto £37K.

Fraudulent Housing Benefit Claim by Employee

- 5.17 Investigations in to a housing benefit fraud identified that the claimant was also an employee of the Council. The individual admitted the fraud totalling £8,133 and has repaid the overpayment in full. The matter was referred to management for internal investigation and the officer subsequently received a final written warning.

Financial Irregularities

- 5.18 Internal Audit received a number of allegations of minor frauds including: the excessive use of the internet / misuse of emails by employees, working whilst off sick, falsification of timesheets and the abuse of the Authority's Flexi Hours Scheme. These allegations were referred to management for investigation with advice and support provided by Internal Audit. Three officers resigned during the course of the investigations whilst disciplinary action was taken against a number of other employees. Several referrals found no evidence to substantiate the allegations made.

6. Benefit Fraud

- 6.1 The Benefit Fraud Team had a slight increase in the number of successful prosecutions compared to 2013/14.

- 6.2 Below are a number of performance statistics demonstrating the activity undertaken during 2014/15:-

- The 2014/15 target was to identify 150 cases of incorrect Housing/Council Tax benefit - achieved 154 cases;
- Out of the 154 cases identified, 94 sanctions were achieved;
- 32 Of these 94 sanctions resulted in successful prosecutions;
- A total of 863 referrals were received in 2014/15 and 603 pro-active checks were undertaken;
- £735,095 incorrect / overpaid benefit / fines etc. were identified of which:
 - £364,907 related to Housing/Council Tax benefit sanction cases;
 - £149,970 related to Housing/Council Tax benefit overpayment only (no sanction);
 - Council Tax Support savings of £31,170;
 - £172,856 in Income Support (national benefit);
 - £1,611 Housing/Council Tax benefit (cases withdrawn);

- Housing/Council Tax benefit fraud resulting in £13,097 raised in Administrative Penalties (e.g. fines);
- Single person discount savings of £1,484.

6.3 A sample of the 32 prosecutions achieved in 2014/15 is shown below summarising the case and the amount in question:

- A woman failed to declare a lump sum payment and an occupational pension to support her claim to Housing and Council Tax benefit; this resulted in £760.02 in falsely claimed benefits. The court made her the subject of a conditional discharge for 12 months and she was ordered to pay £183 prosecution costs and a victim surcharge of £15.
- Man failed to declare that he had returned to work and was no longer in receipt of statutory sick pay which would have affected his entitlement to housing and council tax benefit. He obtained £2,529 to which he was not entitled. The court sentenced him to a 12 month Community Order with requirement to carry out 40 hours unpaid work. Ordered to pay £100 Prosecution Costs and £60 Victims Surcharge.
- Woman failed to declare that her son was living in her property therefore affecting her entitlement to a benefit under social security legislation. She falsely obtained £2,303 Housing Benefit and £131 Council Tax Benefits. The court was informed that the woman had a previous conviction in 2010 for benefit fraud and, in light of her previous offence the woman was sentenced to eight week immediate custody.

6.4 All the above cases have been publicised.

7. Key Priorities 2015/16

7.1 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.

7.2 The Corporate Anti-Fraud Team has allocated 580 chargeable days for reactive and proactive fraud work in 2015/16.

7.3 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	Review of 2014/15 NFI findings	September 2015
2	Council tax Single Person Discount Review	September 2015
3	Investigation of instances of Council tax Reduction Scheme fraud	Ongoing
4	Development of additional BOLD Fraud Awareness E-Learning	September 2015

Ref	Action	Timescale
5	Review of Corporate Anti-Fraud and Corruption Policy and Strategy,	October 2015
6	Revise Fraud Response Plan	October 2015
7	Review of Corporate Prosecutions Policy	October 2015

8. Local Area Implications

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

9. Consultations

9.1 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. Internal Audit has consulted with the Head of Benefits in order to obtain details relevant to Section 6 of the report, Benefit Fraud.

10. Compatibility with European Convention on Human Rights

10.1 In the conduct of investigations, Internal Audit 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.

11. Reduction of Crime and Disorder

11.1 An inherent aspect of audit 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 ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

12. Risk Management Considerations

12.1 Fraud risk is now established within both operational and strategic risk registers. An annual fraud risk self-assessment is undertaken by each Assistant Director to contribute to their risk registers but also to help to determine the key areas where planned Internal Audit activity would be best directed.

12.2 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.

12.3 During the year, the Division reviewed and revised its operational risk register to ensure all risks to the delivery of the function's objectives were identified and could therefore be managed. This risk register is the subject of regular review in accordance with the corporate process.

12.4 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.

13. Employee Implications

- 13.1 All employees are under an obligation through their contracts of employment to be honest and adhere to the Code of Conduct.
- 13.2 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.

14. Financial Implications

- 14.1 There are no financial implications arising directly from this report. The costs of the Internal Audit function and the external audit fees are included within the Authority's base budget.
- 14.2 There are financial consequences in both losses from fraud and also the cost of controls to minimise fraud. Internal Audit carefully assess both aspects of the financial consequences of fraudulent activity when making recommendations and advising management.

15. Background Papers

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

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