

AUDIT COMMITTEE – 14th JUNE 2017

ANNUAL FRAUD REPORT 2016/17

Executive Summary

- i. 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 a robust framework of policies and procedures to safeguard the Council's integrity against potential fraud.
- ii. From April 2015, all counter 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 2016 to 31 March 2017.
- 1.2 The Corporate Anti-Fraud Team continues to provide 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 an increased focus being placed on local government to protect public funds. 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.
- 3.3 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.

- 3.4 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 update reports summarising work undertaken in respect of anti-fraud work and investigations.
- 3.8 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.
- 3.9 The following sections summarise the activity during the year covering corporate pro-active anti-fraud matters and reactive investigation work.
- 3.10 Details of sample fraud cases are reported at Appendix 1.

4. Pro-active Anti-fraud and Corruption Activity 2016/17

Structure and Roles

- 4.1 Internal Audit's Corporate Anti-Fraud Team acts on behalf of the Director of Finance 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 The Corporate Anti-fraud Team comprises a Principal Auditor (Corporate Anti-Fraud), a Senior Corporate Anti-Fraud Officer and a Corporate Anti-Fraud Officer.

- 4.3 In 2016/17 the Corporate Anti-Fraud Team had a total budgeted plan of 581 days. Preventative anti-fraud work totalled 161 days (compared to 165 in 2015/16) whilst reactive investigations totalled 420 days (compared to 415 in 2015/16).

Developing an Anti-Fraud Culture

- 4.4 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.
- 4.5 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.

Preventing Fraud

- 4.6 Effective preventative systems are put in place to try and ensure that if fraud is attempted, it will be discovered and fail.
- 4.7 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.
- 4.8 Internal Audit is a member of the West and South Yorkshire Fraud Investigators Group (SWYFIG) which comprises West and South Yorkshire Internal Audit investigators.
- 4.9 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

- 4.10 The NFI is a regular (biennial), mandatory, data matching exercise which all UK local authorities must participate in. 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 the Corporate Anti-fraud Team is currently addressing the matches received in January 2017.
- 4.11 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.
- 4.12 The datamatches relating to the 2016-2017 are currently being sorted and investigated. Data filters, recommended and supplied by the Cabinet Office, have been 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.
- 4.13 To date 1,151 matches have been processed and six of these have identified overpayments totalling £26,857.01.
- 4.14 A breakdown is shown below:

Subject	Monetary Value	Number of Cases	Recovery Action
Private Residential Care Homes	£24,688	5	Yes, recovered from future payments
Personal Budgets	£2,169	1	Yes, recovered from future payments

- 4.15 Both the private residential care homes value and the personal budget value arose where matches highlighted residents/personal budget recipient had died, unknown to the Council. Recovery of the overpayments in respect of residential care has been made from future payments to the relevant care homes.

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 2016 work in this area has included:
- Advice to managers undertaking management investigations and disciplinary proceedings; and
 - Advice to officers and referrals to Action Fraud in respect of payments for Council services using stolen credit/debit cards.

Council Tax Support (CTS) Investigations

- 5.6 The levels of identified CTS fraud are still relatively low nationally. CAFT have identified fraudulent council tax support claims of £3,354.23 since April 2016.
- 5.7 A summary of the Council Tax Support workload of CAFT for the period 1st April 2016 to 31st March 2017 is shown below.

Referrals	148
Accepted for investigation	3
Current Investigations	4

- 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	1
Poor intelligence – not enough evidence to pursue	14
Referred to DWP for investigation	61

Details	No.
No benefit in payment – no issue	4
LA error	2
No evidence of fraud	44
Uneconomical to pursue - CTS adjustment less than £500	15
Total	141

The majority of the above referrals were received via the Corporate Anti-Fraud Hotline (47) and online referrals (39). A further 14 referrals were received from anonymous letters from the public whilst the remaining 41 were referred from Benefits Taxation and Income or Berneslai Homes.

Council Tax

- 5.9 CAFT have identified fraudulent council tax liability claims of £14,221.03 with additional savings of £951.46 identified since April 2016.

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 2016 to 31st March 2017 is shown in the table below.

Referrals	227
Overpayment only	33
Currently under investigation	3

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

Details	No.
Change in circumstance already known - no issue	6
Poor intelligence – not enough evidence to pursue	10
No discount present	5
Referred to DWP	29
No evidence of fraud	141
Total	191

Most of the above referrals were received via the Corporate Anti-Fraud Hotline (56) and online referrals (53). A further 10 referrals were received from anonymous letters from members of the public whilst 52 were referred from Benefits, Taxation and Income or Berneslai Homes. The remaining 56 (which provided no evidence of fraud) followed investigations into a number of matches raised via the council tax pro-active data matching exercise which took place in 2015/16.

Right to Buy (RTBs)

- 5.19 The number of RTB sales has continued to rise from 40 in 2011/12 to 198 in 2016/17 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 186 RTB applications during the financial year 2016/2017.
- 5.23 Fourteen 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.
- 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 Following the success of the previous fraud awareness training sessions, an anti-fraud and corruption training session was provided to Board Members during August 2016.
- 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 three properties which were not being used by the tenant as their main home. CAFT investigations have also helped to prevent three false attempts to succeed tenancies.
- 5.27 A summary of alleged tenancy fraud referrals received for investigation during 2016/17 is shown in the table below.

Details	No.
Alleged application fraud – Closed no evidence of fraud	2
Alleged non-residency – not pursued, no evidence of fraud	19
Alleged fraudulent attempt to succeed tenancy – not pursued, no evidence of fraud	3
Allegation of sub-letting - not pursued, no evidence of fraud	5
Ongoing	4
Total	33

5.28 Most of the above referrals were received anonymously from members of the public (7 to the Corporate Anti-Fraud Hotline and 4 letters). A further 8 referrals were received via Corporate Fraud Online Referral Forms whilst 14 were referred from Berneslai Homes (13), Benefits, Taxation and Income (2) and Social Services (1).

6. Key Priorities for 2017/18

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 561 chargeable days for reactive and proactive fraud work in 2017/18.

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	Develop additional Fraud Awareness E-Learning	July 2017
2	Review of Corporate Prosecutions Policy	September 2017
3	Review of Corporate Fraud Response Plan	September 2017
4	Review of Corporate Whistleblowing Policy	September 2017
5	Filtering and investigation of NFI datamatches*	2 nd milestone September 2017
6	Reinstatement of the management fraud risk assessment process	October 2017

*The Cabinet Office recommends milestones throughout the two year exercise to help plan and resource investigations. An initial review of all recommended filter matches in key reports should be complete by the end of May 2017. By 30th September 2017 some cases and outcomes should be recorded on the NFI web application. All selected matches should have been investigated and outcomes recorded by summer 2018.

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

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Date: 30th May 2017

	Case Description	Result / Outcome
1.	<p>Suspected Money Laundering – A referral was received from the Benefits, Taxation and Income Team relating to a possible failure to report a change in income.</p> <p>Whilst the referral was unsuitable for investigation due to the low value of the overpayment it was noticed that bank statements supplied by the claimant showed irregular daily transactions into and out of the bank account. The payments, of a significant value, appeared to have been received from the claimant's employer and had been withdrawn the same day via a local ATM.</p> <p>Checks to the business established that the company has 72 franchises across the UK and the latest annual return recorded it as a 'small company'. Additional checks verified that 2 of these franchises are located within the Barnsley Borough and that both were claiming empty relief.</p> <p>Visits to both properties evidenced that they were occupied and trading. In addition, witness statements taken from neighbouring businesses established that neither property had been unoccupied. Details of CAFTS findings in respect of the 2 properties were reported to Benefits, Taxation and Income and both business accounts were subsequently amended.</p>	<p>CAFT's concerns regarding suspected money laundering were referred to the National Crime Agency for further investigation.</p> <p>The business rates accounts were adjusted to remove the empty rates relief which resulted in £1,779.93 being added to the business rates account.</p>
2.	<p>Council Tax Exemption – A referral was received from a member of the public alleging that an individual, exempt from paying council tax due to having a severe mental impairment (SMI), was working full-time.</p> <p>Checks to council tax records confirmed that the individual was exempt from council tax and that the exemption awarded was due to 'property being fully occupied by SMI'. Additional checks established that the individual had applied for the exemption and their registered GP had certified that the individual was 'suffering from severe mental impairment'.</p> <p>Checks to internet open source material identified that the individual had an open</p>	<p>The exemption was withdrawn with effect from June 2016, the date that the GP advised CAFT that the individual did not satisfy the exemption criteria.</p> <p>This resulted in an adjustment of £1,010.70 being added to the council tax account.</p>

	Case Description	Result / Outcome
	<p>Facebook profile and recorded their nature of employment and name of employer. Of more interest however, was a video of the individual appearing on the TV show 'Countdown'.</p> <p>A visit to the individual's GP was subsequently arranged and the qualification criteria for a 'Severe Mental Impairment' exemption from council tax were discussed. In addition, the video clip referred to above was also shown to the GP who responded that he filled in lots of forms and that mental capacity was subject to review. It was further explained that for council tax purposes the severe mental impairment of intelligence and social functioning must appear to be permanent.</p> <p>The GP subsequently contacted CAFT stating that, following the above meeting and having received clarification about the criteria for the exemption he no longer believed that the individual was permanently severely mentally impaired.</p>	
3.	<p>Application to Succeed a Tenancy – An investigation was instigated following a referral from Berneslai Homes. An individual had submitted an application to succeed a tenancy following a parent being admitted to permanent residential care. The officers had concerns that the individual had falsely claimed to be living in the property for the required length of time.</p> <p>Checks undertaken by CAFT, including third party data background searches, identified that the individual had financial links to a property in the Cheshire area. The relevant local authority was contacted and was able to provide confirmation that the individual was registered for council tax purposes within their locality and therefore did not satisfy the criteria to succeed the tenancy.</p> <p>A possession order was subsequently made by Berneslai Homes as a result of the evidence supplied by CAFT.</p>	The property was recovered and has been re-let to new tenants.