

AUDIT COMMITTEE – 6th JUNE 2018

ANNUAL FRAUD REPORT 2017/18

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 robust policies and procedures to safeguard the Council's integrity against potential fraud.
- ii. The Authority's counter fraud functions continue to be provided by Internal Audit Services Corporate Anti-Fraud Team (CAFT). This centralised team enables 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 2017 to 31 March 2018.
- 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.
- 3.5 The Audit Committee have received update reports summarising work undertaken in respect of anti-fraud work and investigations.
- 3.6 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.
- 3.7 The following sections summarise the activity during the year covering corporate pro-active anti-fraud matters and reactive investigation work.
- 3.8 Details of sample completed fraud investigations are reported at Appendix 1.

4. Pro-active Anti-fraud and Corruption Activity 2017/18

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 of a Principal Auditor (Corporate Anti-Fraud), a Senior Corporate Anti-Fraud Officer and a Corporate Anti-Fraud Officer.
- 4.3 In 2017/18 the Corporate Anti-Fraud Team had a total budgeted plan of 562 days. Preventative anti-fraud work totalled 112 days (compared to 161 in 2016/17) whilst reactive investigations totalled 450 days (compared to 420 in 2016/17).

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 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.

4.11 The Council submits information relating to 12 mandatory sets of data. These datasets consist 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 continue to be sorted and investigated. However, work on the 2016-2017 exercise is gradually being reduced as the 2018-2019 exercise is due to commence later this year.

4.13 The total monetary value of fraud and error identified as at the end of March 2018 amounts to £240,196.

4.14 A breakdown is shown below:

Subject	Monetary Value	Number of Cases	Recovery Action
Private Residential Care Homes	£72,340	10	Amount has been recovered from future payments
Personal Budgets	£2,169	1	Amount has been recovered from future payments
Housing Benefit	£19,351	9	Recovery of amount ongoing
Council Tax Support	£2,138	1	Recovery of amount ongoing
Duplicate Creditor payments	£133,635	21	Amount has been recovered from future payments
Council tax single person discount	£10,563	17	Recovery of amount ongoing
Total Overpayments	£240,196		

4.15 Both the issues relating to private residential care homes and personal budgets arose where matches highlighted that a resident/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.

4.16 The original residential care home datamatches (200 matches) received in January (2017) identified 5 overpayments totalling £24,688. In view of the size of these overpayments further datamatch exercises, specific to residential care home residents to DWP deceased data, were undertaken in July (2017) and February (2018). These additional exercises provided a further 65 and 24 datamatches for follow-up. Checks identified that 11 of these matches had overpayments totalling £47,652.

4.17 The 16 overpayments related to 13 different care homes and the delay in notification to BMBC appears to be due to the relevant care home informing their Head Office of the death who then advises the Council that payment should cease.

4.18 A small number of duplicate creditor payments have been identified and these have been recovered from future payments. The Commercial Services Team have their own internal controls and have found that on many of the matches the error was already identified and rectified prior to the matches being received.

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 focused 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;
 - Advice to officers in respect of concerns relating to the payment of Special Guardianship Allowance;
 - Liaison with the Immigration Service regarding concerns about the use of false identity documents;
 - Advice to officers and referrals to Action Fraud in respect of payments for Council services using stolen credit/debit cards;
 - Liaison with the Council's Safer Neighbourhood Team concerning a property let by a private landlord.

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 £6,429.04 since April 2017.
- 5.7 A summary of the Council Tax Support workload of CAFT for the period 1st April 2017 to 31st March 2018 is shown below.

Referrals	111
Accepted for investigation	7
Current Investigations	9

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

Details	No.
Poor intelligence – not enough evidence to pursue	7
Referred to National Crime Agency for investigation	1
No effect to CTS entitlement	4
Referred to DWP for investigation	46
Referred to Benefits, Taxation and Income	4
Preliminary investigation provided no evidence of fraud	31
Uneconomical to pursue - CTS adjustment less than £500	2
Total	95

The majority of the above referrals were received via online e-forms (43) and from other departments within the Council or Berneslai Homes (38). A further 21 referrals were received via the Corporate Anti-Fraud Hotline whilst the remaining 9 referrals were received from anonymous letters from the public.

Council Tax

- 5.9 CAFT have identified fraudulent council tax liability claims of £11,630.24 with additional savings of £4,369.84 identified since April 2017.

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 2017 to 31st March 2018 is shown in the table below.

Referrals	189
Overpayment only	34
Currently under investigation	4

- 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	2
Poor intelligence – not enough evidence to pursue	10
No discount present	2
No effect to entitlement	2
Referred to Benefits, Taxation and Income	23
Referred to DWP	12
Local Authority error	1
No evidence of fraud	99
Total	151

Most of the above referrals were received via the Corporate Anti-Fraud Hotline (27) and online referrals (76). A further 9 referrals were received from anonymous letters from members of the public whilst 64 were referred from Benefits, Taxation and Income or Berneslai Homes. The remaining 13 followed investigations into a number of matches raised via the NFI exercise.

Insurance Claims

- 5.12 An audit of the Council's insurance claim handling arrangements (undertaken by an external claims handler) recommended the development of a formal counter fraud process to prevent and detect potential fraudulent claims.
- 5.13 The CAFT commenced counter fraud checks of submitted insurance claims in February 2018. These checks, including financial and residential verification, provide assurance to the Insurance Team that the claims are genuine and bona fide.
- 5.14 CAFT has undertaken checks against 19 insurance claims in the final two months of 2017/2018. Preliminary investigations relating to two of the claims suggested some irregularity and CAFT's findings have been referred back to the Insurance Team in order that the Council's claims handler can investigate further.

Direct Payment / Personal Budget Fraud

- 5.15 Social care fraud has been identified as an emerging fraud risk area for local authorities. Whilst this type of fraud can take many forms the areas of greatest concern are the misuse of personal budgets, and people with no recourse to public funds deceiving local authorities into providing services to them.
- 5.16 The Council's Adult Assessment and Care Brokerage Team have referred three suspected irregularities to the CAFT, a further two have been received from members of the public.
- 5.17 Preliminary investigations into two of the referrals did not identify any evidence of fraud and a third has been forwarded to HMRC due to the service user making a number of cash payments for personal care.
- 5.18 The CAFT are continuing to investigate the remaining two referrals.

Right to Buy (RTBs)

- 5.19 The number of RTB sales has reduced from 198 in 2016/2017 to 184 in 2017/2018. Tenants can benefit from the scheme with discounts up to £77,000.
- 5.20 The Corporate Anti-Fraud Team have continued to apply an enhanced fraud prevention process to all new RTB applications throughout 2017/2018.
- 5.21 Checks, including financial and residential verification, provide assurance that tenants are eligible to the discount and fulfil the criteria of the scheme ahead of completion of sale.
- 5.22 CAFT has undertaken checks against 196 RTB applications during the financial year 2017/2018.
- 5.23 Eleven 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, one application was withdrawn during the right to buy application process. However, it should be noted that the application was not 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 An investigative support service continues to be 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 and to prevent two false attempts to succeed tenancies. CAFT investigations have also helped to recover two properties following allegations of sub-letting and with the successful prosecution of a tenant under the Prevention of Social Housing fraud Act 2013.
- 5.26 A summary of alleged tenancy fraud referrals received for investigation during 2017/2018 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	16
Alleged fraudulent attempt to succeed tenancy – no evidence of fraud	4
Allegation of sub-letting - not pursued, no evidence of fraud	3
Ongoing	4
Total	29

- 5.27 Several of the above referrals were received anonymously from members of the public (4 to the Corporate Anti-Fraud Hotline and 1 letter). A further 7 referrals were received via Corporate Fraud Online Referral Forms, 3 anomalies were investigated as a result of NFI datamatching whilst 20 were referred from Berneslai Homes (18) and Benefits, Taxation and Income (2).

6. Key Priorities 2018/19

- 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 enable them to investigate lower risk referrals.
- 6.2 The Corporate Anti-Fraud Team has allocated 558 chargeable days for reactive and proactive fraud work in 2018/19.
- 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 December 2018.

Ref	Action	Timescale
1	Participation in NFI Non Domestic Rates pilot exercise	June 2018
2	Review of Corporate Anti-Money Laundering Policy	July 2018
3	Corporate Procurement Anti-Fraud Review	August 2018
4	Organised Crime Procurement Audit	August 2018
5	Co-ordination of, and participation in, BMBC/BH Fraud Awareness Week	September 2018
6	Preparation for 2018-2019 NFI exercise	September 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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	Case Description	Result / Outcome
1.	<p>Council Tax Support Fraud – A fraud referral was received from the Benefits, Taxation and Income Team following discrepancies identified as a result of a HMRC Real Time Information (RTI) datamatch.</p> <p>RTI is HMRC’s system for collecting tax information from employers and pension providers. This information is matched to Department for Works and Pensions (DWP) housing benefit data and referrals are issued to local authorities where DWP data is inconsistent with tax records.</p> <p>The RTI datamatch suggested that a claimant in receipt of council tax support had failed to declare two bank accounts and to report a significant increase in capital to both the DWP and Barnsley Council.</p> <p>CAFT enquiries established that the claimant inherited in excess of £191K in 2013 but failed to inform the Council of this change in circumstances that would affect council tax support entitlement.</p> <p>The failure to report the increase in capital resulted in a council tax support overpayment of £2,867.58.</p>	<p>The claimant was interviewed under caution but failed to provide a satisfactory explanation for the failure to report the change in circumstance.</p> <p>The claimant subsequently paid the overpaid council tax support in full.</p> <p>As all council tax account arrears were paid in full, and that the DWP had advised they were pursuing a criminal prosecution for overpaid welfare benefits, it was not considered to be in the public interest for the Council to pursue a criminal prosecution for overpaid council tax support.</p>

	Case Description	Result / Outcome
2.	<p>Right to Buy Application – A referral was received from the Right to Buy Team who were concerned that one of the tenants had failed to declare receiving a right to buy discount on another council house purchased with a former partner.</p> <p>Checks undertaken by CAFT, including land registry and third party data background searches, identified that the tenant had received a discount exceeding £22K when purchasing a property through the right to buy scheme with the former partner.</p> <p>The Right to Buy Team issued a further letter to the tenants requesting confirmation of any previous council house purchases. The tenants subsequently resubmitted the right to buy application declaring the earlier purchase.</p>	<p>The tenants continued with the purchase of the council house but with a reduced qualifying discount due to 50% of the previous discount, which exceed £9K, being recovered.</p>