

Audit & Governance Committee

Counter-Fraud Report 2018/19

Introduction

CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."

Similarly, in *The Investigation of Fraud in the Public Sector* (CIPFA, 1994) CIPFA defined corruption as "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person." Furthermore, the Fraud Act 2006 has defined fraud in law for the first time, defining it in three classes:

- fraud by false representation;
- fraud by failing to disclose information; and
- fraud by abuse of position.

Fraud may be committed both from within the organisation and from outside it. Frauds may be complex or simple, opportunistic, pre-planned or continuous.

In June 2013, the National Fraud Authority estimated that fraud was costing the UK £52 billion a year. It estimated that the loss in the public sector was £20.6 billion, with £2.1 billion of this specific to local government (see Appendix 1). In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation, or threatening the provision of local services. (At the present time, CIPFA advise that this still remains the most reliable and comprehensive set of figures available).

The current financial climate has increased the likelihood of fraud being perpetrated against the Council. The Audit & Governance Committee has oversight responsibility for the anti-fraud culture within the Council and receipt of annual Counter-Fraud Report is included in the Committee's agreed workplan.

Fighting Fraud & Corruption Locally

In 2016, CIPFA published "Fighting Fraud & Corruption Locally – the local government counter fraud and corruption strategy 2016 to 2019" (FFCL 2016). In the main, this document does not identify any significant new fraud areas from previous documents, but *"updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan."*

In the Executive Summary, the document:-

- *"calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment"*
- *"calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement"*
- *"sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause."*

It also states that:-

- *“it is now for elected members, chief executives, finance directors and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.”*

The document advises:-

“In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):

- **Acknowledge:** *acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.*
- **Prevent:** *preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.*
- **Pursue:** *punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.”*

“Our vision is that by 2019:

- *there is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them*
- *by better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services*
- *local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery*
- *local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses*
- *fraudsters will be brought to account quickly and efficiently and losses will be recovered.”*

With the past work performed on counter-fraud processes and specific high-risk areas, the Council is already well-aligned with the local elements of FFL. Internal Audit will continue to consider current and emerging fraud risk, both generally and in future Service area audits.

Chief Executive Statement

The FFCL 2016 document repeats the 2011 message that *“acknowledgement must start at the top and lead to action”*. In response to this, the Council's Chief Executive (Nigel Lynn) has affirmed that:-

“This Council recognises that fraud is a significant issue nationally and that every successful fraudulent act places an additional financial burden on the honest residents and taxpayers of the District. In collaboration with both central government and our local partners, we will ensure that effective ongoing measures are in place to prevent, detect and pursue fraud against the Council.”

Counter-Fraud Activities

General

The Council is required to provide information on fraud arrangements, etc. in response to the annual request from the external auditors (Ernst & Young LLP), relating to the risks of, identification of and responses to fraud (relevant to ISA 240 – ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’).

The Council also participates in the annual (national) fraud survey conducted by CIPFA, which resulted in their ‘Fraud & Corruption Tracker summary report’ in 2018. The content of this report was drawn to the attention of senior management and the members of the Audit & Governance Committee.

Various publications and briefings on fraud are held by the Council (e.g. from central government, CIPFA, etc.) and the guidance and recommendations in these documents has been used as a basis for counter-fraud work by Internal Audit.

Arun District Council is committed to the prevention, detection and investigation of fraud and corruption. It is expected that all those who work for, serve or deal with the Council will act in a fair and honest way.

The Council has a specific Anti-Fraud, Corruption & Bribery Policy, including the requirements of the Bribery Act 2010, which was adopted by Full Council in October 2013. (This policy will require review and update in 2019, once Constitution, Code of Conduct and structure changes have been completed). There are also other policies and procedures that support and promote this.

There is also a published Fraud Response Plan, which has been reviewed / updated and the changes noted by the Audit & Governance Committee in December 2017.

The Council’s Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) was reviewed / updated in 2017 and is published on the Council’s web site.

The Fighting Fraud Locally strategy recommended that Councils publicise the risks of fraud and encourage public response. Information on the key fraud risk areas facing the Council and contact numbers for members of the public to report suspected fraud cases / concerns is set up as a ‘Fraud’ area on the Council’s web site. A small number of articles in relation to fraud (e.g. Single Person Discount) have previously been provided by the Council for publication in the local press and updates have also been provided to Members (e.g. in respect of the work being undertaken on housing fraud).

No fraud and / or corruption investigations have been carried out during the year in respect of Members, under the Code of Conduct.

Benefits Investigations

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. Under the Welfare Reform Act 2012, benefits investigations were centralised into a ‘Single Fraud Investigation Service’ operated under the control of the DWP, although the Council is still required to provide data to support DWP investigations. Members of the public are still encouraged to report suspected incidents of fraud

via the National Benefit Fraud Hotline or through a link to the appropriate www.gov.uk pages on the Council's website.

Housing Tenancy

As advised in past reports, housing tenancy fraud is an area of significant concern to the Government and this is now a criminal offence under the Prevention of Social Housing Fraud Act 2013.

The Council has over 3300 properties in its social housing stock. In 2017, following a successful pilot exercise, a dedicated Housing Fraud Investigator post (funded through the Housing Revenue Account) was added to the Council's structure on a permanent basis. In addition to investigating active fraud leads, the Investigator's remit includes prevention - working with other areas of Housing in respect of:-

- the verification process for acceptance to the Housing Register
- the process for verifying Right To Buy entitlement to purchase Council properties
- exchange and succession requests.

The arrangement continues to be successful and of considerable benefit to the Council, (in 2018/19):-

- 117 cases were investigated
- 14 properties were brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit (4 of these had been sub-let)
- 14 inappropriate applications to the Housing register were prevented
- approximately £16k of inappropriate housing benefit / Council Tax Reduction was recovered (linked to cases investigated)
- some joint investigations (relating to housing benefit / Council Tax Reduction) were also conducted with the DWP.

(Prevention of housing tenancy fraud allows the placement of new tenants from the Housing Register and potentially reduces emergency B&B costs – the industry standard indicative notional 'value' attached to this is now £93k per property recovered).

The total notional value of recoveries in 2018/19 was c.£1.4M and this was reported to the Overview Select Committee by the Cabinet member for Residential Services, who also advised them that as a result of this initiative 42 properties have now been returned to legal occupation over the last 2.5 years.

Council staff attend meetings of the Sussex Tenancy Fraud Forum and Housing management will continue to consider improvements in how potential fraud cases may be identified and investigated in the future. This may involve additional publicity in respect of the issue, additional visits to Council properties and further liaison with local social housing providers. The Council is also a member of the National Anti-Fraud Network (NAFN) and appropriate information may be obtained from them to assist in investigations work.

Other Investigations

Other than the two above areas, all other fraud work is the responsibility of Internal Audit (except for any electoral fraud issues, which are handled by the Returning Officer / Police).

National Fraud Initiative

The Council is a mandatory participant in the National Fraud Initiative (NFI), now operated by the Cabinet Office. This is a data matching exercise that involves comparing records held by one body against other computer records held by the same or another body to see how far they match. An example would be comparing Arun District Council Housing Benefit claimants with the licensed taxi drivers recorded by Arun and other Councils.

In October 2018, the Council provided the Cabinet Office with the data required for the main biennial NFI review (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.). The reports received are under review by Internal Audit and Benefits staff.

Work on the NFI Council Tax Single Person Discount review (based upon data provided in October / December 2017) was completed in 2018. This resulted in 77 accounts having the discount removed and re-billing of approximately £66k.

In December 2018, Council Tax and Electoral Roll data was again provided for annual Council Tax SPD entitlement checking and the reports received reviewed. Queries on entitlement to SPD have been referred to the Revenues section for review and a number of records referred to the Elections section for removal from the Electoral Roll where (from review of Council tax records) they are known to no longer be resident at the recorded address.

Other Revenues Activity

The Council's Revenues area also undertakes a number of other checks in order to reduce the risk of fraud in respect of the eligibility for Council Tax and Non-Domestic Rates (NDR) exemption or reduction. These include:-

- inspection of empty business rated properties
- review of mandatory and discretionary NDR discounts
- review of entitlement to Council Tax exemptions and other discounts
- inspection of residential properties that have been empty for more than 2 years
- contact by the Empty Homes Officer with homeowners where the property has been empty for 6-18 months.

In respect of the last 2 points, a further 82 properties had the 'empty' status removed in 2018/19 which has a positive impact on the Council's New Homes Bonus income.

Other Activity

In 2018, the Finance Department commissioned a 3rd party provider to undertake a review of invoices paid by the Council in order to identify potential duplicate payments. The cost of this exercise was on the basis of a percentage of the amount recovered in respect of any duplicate payments identified. The results of the exercise confirmed the effectiveness of the current level of control over invoice processing at the Council, as only 6 items were challenged resulting in a recovery of approximately £9k from the invoices processed through the e5 system from October 2016-March 2018.

Local Government Transparency Code

The Local Government Transparency Code, *'issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services'* was extended in 2014 to include fraud information.

The Council must now publish certain information on its counter fraud work on an annual basis and this will contain some information that is covered in more detail in this report (see Appendix 2 – which is published on the Council's website).

Future Activities

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone cannot guarantee that fraud or corruption will be detected.

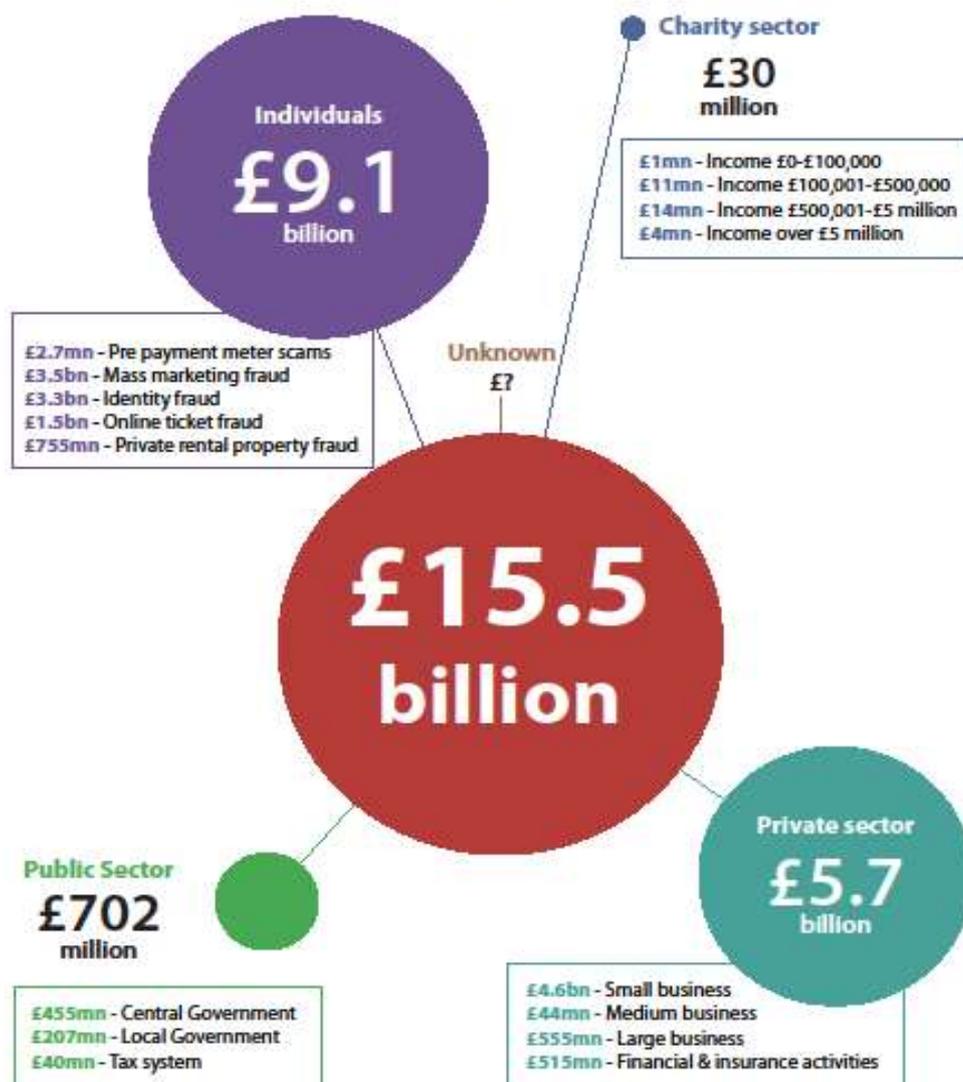
Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of any identified fraud and corruption will also be assessed against the Council's overall governance arrangements. Internal Audit provides an annual opinion on the adequacy and effectiveness of the systems of internal control operating within the Council and any identified cases of fraud or corruption may influence this opinion.

Further to the publication of CIPFA's Code of Practice on Managing the Risk of Fraud & Corruption and the revised Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- will monitor the progress of national initiatives and engage in the various consultations that will be required to implement the strategy
- will continue to examine reports on initiatives undertaken at other local authorities, together with published guidance and advisory documents, to ensure that lessons learnt and emerging fraud risks are considered as part of our counter-fraud activities
- will continue to assess our current activities against the best practice contained in the strategy for local consideration and ensure that our counter-fraud activities are as effective as possible
- will ensure that appropriate counter-fraud measures remain in place in service areas impacted by changes from management / operational restructures or efficiency / cost saving initiatives.

A significant amount of counter-fraud work is already performed by the Council and further work will be undertaken in high-risk areas (such as Council Tax and Housing), in addition to the continual consideration of emerging fraud risks and assessment of the Council's policies and procedures against best practice and appropriate guidance notes.

Figure 1: Identified fraud loss estimates by victim

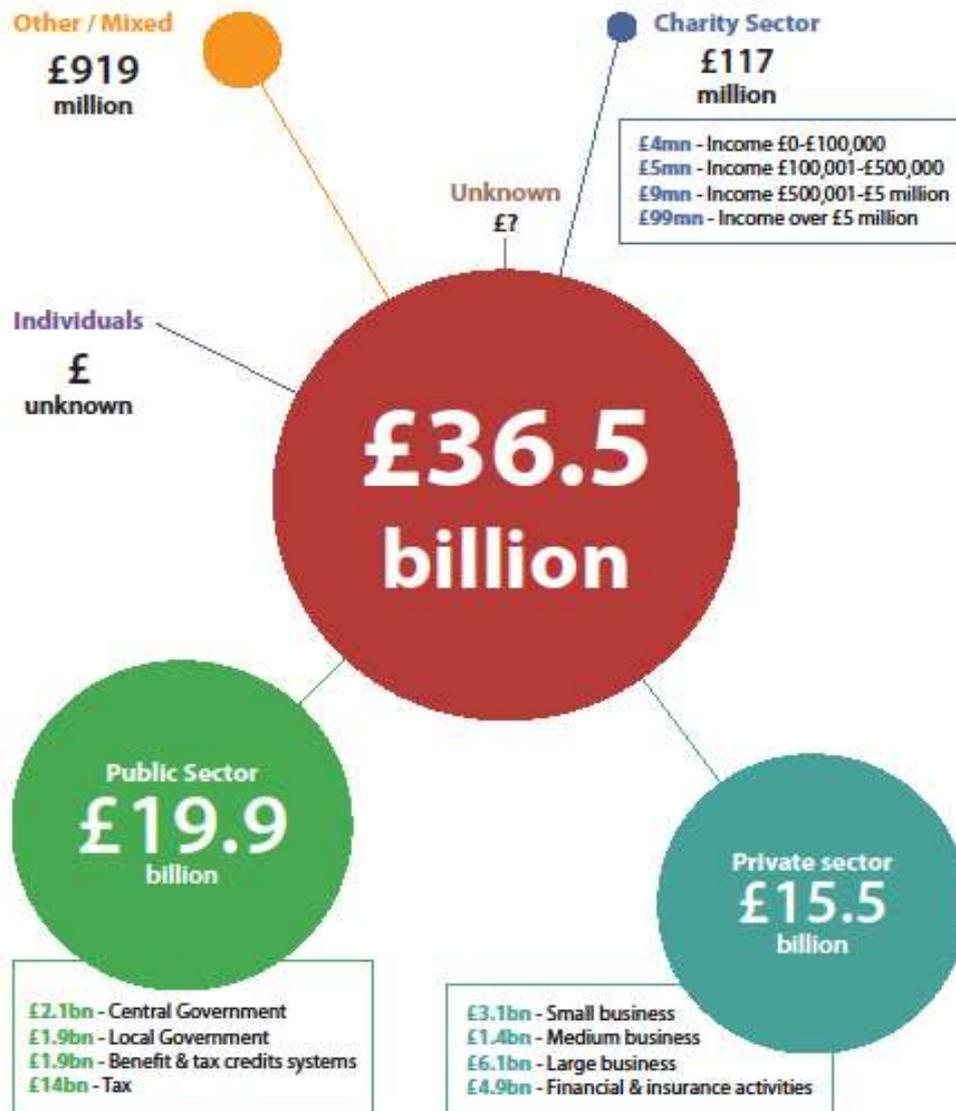


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

The identified fraud loss figures are likely to be an under estimate in some areas where the NFA have not been informed of detected losses, therefore, fraud losses are unknown, rather than zero or not present. See annex 2 for fraud by type breakdown.

Please note figures may not add up exactly due to rounding.

Figure 2: Hidden fraud loss estimates by victim



N.B: It is not always possible to clearly demarcate fraud types to identified or hidden fraud losses as some estimates spread across both. The hidden fraud loss estimate therefore includes those estimates that bridge both hidden and identified fraud losses (see annex 2).

See overleaf and annex 2 for a breakdown of losses within victim type.

Please note figures may not add up exactly due to rounding.

Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Total estimated fraud loss	Fraud type	Fraud loss	Identified loss	Hidden loss
Public Sector £20.6 billion	Tax system	£14.0 billion	Tax fraud	£14.0 billion	£1.4 billion	Unknown
			Vehicle excise fraud	£40 million	£40 million	Unknown
			Procurement fraud	£1.4 billion	£1.4 billion	Unknown
			Grant fraud	£504 million	£504 million	Unknown
			Television licence fee evasion	£204 million	£204 million	Unknown
			Payroll fraud	£181 million	£181 million	Unknown
	Central government	£2.6 billion	NHS patient charges fraud	£156 million	£156 million	Unknown
			NHS dental charge fraud	£73 million	£73 million	Unknown
			Student finance fraud	£31 million	£31 million	Unknown
			Pension fraud	£14 million	£14 million	Unknown
			National Savings and Investments fraud	£0.40 million	£0.40 million	Unknown
			Housing tenancy fraud	£845 million	£845 million	Unknown
			Procurement fraud	£876 million	£876 million	Unknown
			Payroll fraud	£154 million	£154 million	Unknown
Local government	£2.1 billion	Council tax fraud	£133 million	£133 million	Unknown	
		Blue Badge Scheme misuse	£46 million	£46 million	Unknown	
		Grant fraud	£35 million	£35 million	Unknown	
		Pension fraud	£71 million	£71 million	Unknown	
Benefit and tax credits systems	£1.9 billion	Benefit fraud	£1.2 billion	£1.2 billion	Unknown	
		Tax Credits fraud	£670 million	£670 million	Unknown	

*Black, red, amber, green (BRAAG) Assessment: Confidence in Indicator

BRAAG	Level of confidence
Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based up on management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate.

NB: It is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud cited as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.

Counter-Fraud for data transparency

S43 of the Local Government Transparency Code 2014, requires local authorities to publish information about their counter fraud work.

The attached figures cover the period 1/4/2018 – 31/3/2019.

Number of occasions powers were used under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

- Internal Audit Not used
- Revenues Not used
- Benefits Not used
- Housing 10

Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

- Internal Audit One employee (approx. 0.1 FTE) may be involved in investigations that could relate to fraud and also reviews potential fraud cases from annual National Fraud Initiative (NFI) reports received
- Benefits Investigations staff were transferred to the DWP SFIS in December 2015
One employee (0.65 FTE) is now engaged in a fraud liaison role
- Housing Housing Fraud Investigator (1 FTE)
- Legal Services No prosecutions in 2018/19

Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

- Internal Audit None
- Benefits None
- Housing 1

Total spent by the authority on the investigation and prosecution of fraud

- Internal Audit c. £6k (based upon staff time)
- Revenues c. £2.5k (additional review of NFI reports) and c.£4k for credit reference agency matching
- Housing c. £44k (staff time, appropriate subscriptions and fees, etc.)

Total number of fraud cases investigated

- Internal Audit General review of NFI reports only
- Revenues 144 - information provided for 'joint' review by DWP
10 - Council Tax Reduction (CTRS) cases reviewed by the Council

- Housing
 - 117 fraud case referrals investigated
(of these, 9 also resulted in investigation into the tenant's housing benefit / CTRS)
 - 14 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit
 - 14 inappropriate applications to the Housing register prevented.

It should be noted that more detailed information on the Council's counter-fraud activities is presented to the Audit & Governance Committee in July, covering the previous financial year. A copy of this report is provided on the Data Transparency web page.

<https://www.arun.gov.uk/transparency>