

AUDIT COMMITTEE
20 MARCH 2014
CORPORATE FRAUD

Report from: Internal Audit

Author: Alison Russell, Head of Internal Audit and Counter Fraud

Summary

To inform Members of matters relating to corporate fraud, including outcomes of investigations and fraud referrals received by Audit Services. This report does not include details of any investigations, which need to be reported as exempt items.

1. Budget and Policy Framework

1.1 It is in the remit of the Audit Committee to take decisions regarding accounts and audit issues.

2. Background

2.1 The Anti-Fraud and Corruption Policy forms part of the Council's Constitution and sets out the council's commitment to ensuring the opportunity for fraud and corruption is reduced to the lowest possible risk.

2.2 Prosecutions, cautions and administrative penalties relating to benefits and council tax reductions are reported in **Annex A**, along with a year on year comparison of identified overpayments with the prior two years. This report relates to Quarter 3 of 2013/14.

2.3 Audit Services are responsible for investigating all suspected fraud perpetrated against the council by employees and contractors. **Annex B** provides an update on internal fraud and irregularity investigations. The report includes a record of any control weaknesses identified and management actions put in place to strengthen existing arrangements.

3. National Fraud Initiative (NFI) 2012/13

3.1 An Interim Report on the 2012/13 National Fraud Initiative was issued on 11 September 2013 and reported to Members at the 25 September 2013 Audit Committee.

3.2 To date, Medway Council has identified over £111,619 in overpayments, as a result of the 2012/13 NFI exercise. A number of fraud investigations are in progress.

3.3 On 22 November 2013 a senior officer from the Audit Commission NFI team provided extremely positive progress feedback. Specific reference was made to our “outstanding outcomes” stating they were “as good, if not better, than the 20-30 councils he had visited over the previous few months”.

3.4 Audit Services will conduct a final review of the 2012/13 NFI exercise early in 2014/15.

4. National Fraud Initiative (NFI) 2013/14 – Council Tax Single Person Discount

4.1 The exercise matches Council Tax Single Person Discount records to 2013 Electoral Registration records. Data in the form of 1,453 matches was received on 26 February 2014. This will be processed over forthcoming months in line with NFI guidelines and assessed local fraud risk. Fraud referrals emanating from the exercise will be investigated by CAFT.

5. Disciplinary issues emanating from investigations

5.1 At agreed key stages Audit Services will share details of their investigation with the relevant Service Manager and Human Resources to allow for appropriate disciplinary action to be considered.

5.2 A number of Medway schools currently purchase external human resources support. In these instances any liaison in relation to disciplinary matters will be conducted between Audit Services and the school head teachers or their nominated managers.

5.3 Where the investigation is being progressed to prosecution and no disciplinary action has been taken by the school Audit Services will alert the Director of Children and Adults Services who will raise the matter with them formally.

5.4 To ensure anonymity is maintained staff investigations relating to External Benefit Fraud will continue to be included on the External Investigations Report at Annex A. This report will not identify the offender as a member of staff.

5.5 Where Medway staff are subject to disciplinary action, as a consequence of an Audit Services investigation, details will be provided to Audit Committee as an exempt item. Generally the disciplinary action would be reported once the criminal matter is concluded.

6. Fraud Hotline

6.1 Details of calls received via the new Fraud Hotline are being monitored to gauge effectiveness and identify areas for improvement.

6.2 To date three referrals have been raised by Audit Services as a consequence of calls received via the new Hotline. Two were found to be unsubstantiated whilst the third is currently subject to further investigation.

7. Single Fraud Investigation Service (S-FIS)

7.1 The roll-out of SFIS was confirmed in the Government's recent Autumn Statement.

7.2 On 3 March 2014 the Programme Director of the DWP Fraud, Error and Debt Programme wrote to Local Authority Chief Executives with an update on: -

- A series of Regional Road Shows – to take place between 24 March and 8 May 2014. Medway will attend on 26 March.
- Details of the implementation planning
 - Phase 1 – A small number of sites to commence in summer 2014
 - A break to evaluate and learn lessons from the transfer process prior to national implementation
 - Phase 2 – Implementation to re-commence in October 2014 and run for a further 18 months to March 2016. With “detailed conversations” taking place with these sites commencing May 2014.
- Human Resources (HR) Transfer Approach
 - DWP has now concluded TUPE will not apply. They have however expressed a commitment to taking employees currently assigned to welfare benefit fraud investigation work and intend applying the principles of the Cabinet Office Statement of Practice for Staff Transfers (COSO P).
 - The letter states action will be taken locally to identify and formally notify individuals that they are to be included in the Statutory Instrument (SI) which is due to be laid before parliament and implemented before the anticipated transfer date.
- The letter includes a questionnaire to be completed and returned by 14 March 2014 detailing the individual council's welfare benefit and corporate fraud activity.
- Examples of work transferring to DWP SFIS specifically excludes staff taking hotline referrals, compliance and visiting staff, decision makers and council solicitors. Council Tax Reduction fraud is NOT included within the scope of SFIS.

7.3 On 10 December 2013 the Communities Minister Baroness Stowell announced a £16.6m fund to boost local government's fight against fraud. Details on how the funding will be released have yet to be confirmed, however it is aimed at helping LAs tackle corporate or non-benefit fraud. Letters were sent to Chief Executives and Local Authority Leaders on 21 February 2014 announcing the steps Government is taking to encourage local authorities to tackle fraud, including a new project to explore how SFIS and local authorities might work together effectively in the future.

7.4 The Local Authority Investigation Officers Group (LAIOG) has extended an invitation to Chief Financial Officers to attend a workshop in Birmingham on 3 April 2014. The workshop is aimed at highlighting how fraud against LAs can be tackled more effectively using existing resources. This has been scheduled to coincide with a Practitioner's training and good practice event on 3 & 4 April.

8. Risk Management, Financial and Legal implications

8.1 There are no risk management, financial or legal implications arising from this report.

9. Recommendations

9.1 Members are asked to note progress in investigating fraud in accordance with the approved Anti Fraud & Corruption policy.

Lead officer contact

Name Alison Russell
Job Title Head of Internal Audit and Counter Fraud
Telephone: 01634 332355
Email: alison.russell@medway.gov.uk

Background papers

Sanction Policy (revised 2006) & Anti-Fraud & Corruption Policy (updated August 2012)
Fraud Resilience Strategy 2012/14 – last update presented to Audit Committee
September 2013

External Investigation Outcomes

Table 1 – Benefits & Council Tax Reductions / Discounts - Prosecutions completed in the 3rd Quarter 2013/14
(Amounts of overpayments outstanding as at 26/02/14)

Prosecutions					
Case ref.	Fraud Type	Fraudulent overpayment £	Period of overpayment or Evasion of liability	Court and sentence	Comment
12432 / 1009944	Failed to declare landlord was a close relative who was resident in the property.	£27,176.63 (HB/CTB)	06/04/05 – 13/09/09	Maidstone Crown Court Pleaded guilty to 1 x offence. Sentenced to 2 months imprisonment (suspended for 12 months). No costs awarded.	Medway investigation and prosecution. The Housing Benefit overpayment is being recovered from on-going DWP benefits at the rate of £17.75pw. There is currently £22,059.27 outstanding. The Council Tax liability reverted to the owner from the start of the overpayment period. Recovery is on-going.
12694 / 1052482	LT	£27,763.64 (HB/CTB) £5,987.31 (IS)	05/11/08 – 05/08/12 23/09/08 – 31/07/12	Medway Magistrates Pleaded guilty to 3 x DWP & 6 x Medway offences. Sentenced to 6 months imprisonment (suspended for 2 years) plus 300 hours unpaid work. Ordered to pay a victim surcharge of £80.00.	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. Housing Benefit overpayment is being recovered from on-going benefit at the rate of £18.00pw. The current balance outstanding is £15,056.74.

12753 / 1025479	LT	£24,711.32 (HB/CTB) £13,095.87 (I/S)	20/03/07 – 08/07/12 20/03/07 – 11/07/12	Medway Magistrates Pleaded guilty to 2 x DWP & 1 x Medway offences. Sentenced to 18 weeks imprisonment (suspended for 12 months). Ordered to do 200 hours of unpaid work.	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. The Housing Benefit overpayment is being recovered at the rate of £25pm. The current balance outstanding is £18,612.68.
12774 / 1021719	LT	£13,577.28 (Medway HB/CTB) £51,201.26 (IS)	06/03/06 – 26/10/08 28/02/06 – 24/05/12	Canterbury Crown Court. Pleaded guilty to 5 x DWP, 3 x Medway, 2 x Thanet, 1 x Orbit Housing offences. Sentenced to a 30 hours Community Service. Also ordered to carry out unpaid work for 150 hours before 25-Oct-2014	Department for Work and Pensions led investigation, prosecuted by Crown Prosecution Service. The case was investigated by officers from Thanet DWP & District Council, who produced Medway documents at interview so that Medway offences could be included. The Housing Benefit overpayment repayment commenced in October 2013 at the rate of £60pm. The current balance outstanding is £9,123.33.
12877 / 1027533	LT	£7,099.92 (HB/CTB) £2,441.86 (I/S)	20/12/10 – 01/01/12 13/12/10 – 30/12/11	Medway Magistrates Pleaded guilty to 1 x DWP & 1 x Medway offences. Sentenced to 6months imprisonment (suspended for 2years). Plus 150	Department for Work and Pensions led investigation, prosecuted by Crown Prosecution Service. The Housing Benefit overpayment is being recovered from on-going benefit at the rate of £18pw. The current balance outstanding is £5,909.96.

				hours unpaid work. £85 costs.	
12884 / 1020029	LT	£43,157.68 (HB/CTB) £17,795.10 (IS / JSA)	18/06/07 – 21/10/12 15/06/07 – 05/10/12	Plymouth Crown Court Pleaded guilty to 2 x DWP and 1 x Medway offences. Sentenced to 4 months imprisonment.	Department for Work and Pensions led investigation, prosecuted by Crown Prosecution Service. Claimant no longer lives in the Medway area and is not in receipt of DWP benefits. Therefore unable to recover the outstanding debt from an on-going award. The Housing Benefit debt was sent for bailiff action in September 2013. The current balance outstanding is £35,532.84.
12997 / 1028929	Inc	£12,294.29 (HB / CTB)	09/07/01 – 07/02/10	Crawley Magistrates Pleaded guilty to 2 x Medway offences. Sentenced to a 10 week curfew (7pm - 7am) which was extended to the boundary of property so that she could still smoke. A victim surcharge of £60.00 and costs of £85.00 were also awarded.	Department for Work and Pensions led investigation, prosecuted by Crown Prosecution Service. Partner of Medway claimant was subject to DWP investigation / prosecution in relation to their claim for Income Support. His failure to declare income to the DWP resulted in an additional IS overpayment of £3,430.37. The Housing Benefit overpayment is currently being recovered from on-going DWP benefit at the rate of £6pw. The current balance outstanding is £8,931.64.
13103 / 82564	WC	£1,096.74 (HB/CTB) £2,799.50 (JSA)	23/01/12 – 04/11/12 20/01/12 – 04/11/12	Medway Magistrates Pleaded guilty to 2 x DWP & 2 x Medway offences.	Department for Work and Pensions led investigation, prosecuted by Crown Prosecution Service. No longer in receipt of benefit. Failed to make any repayment of Housing Benefit overpayment. Debt

				Sentenced to 24 month conditional discharge and order to pay costs of £85.00.	passed to bailiffs on 19/09/13 for further recovery action. The current balance outstanding remains at £852.42.
13161 / 1054911	CofC	£5,889.27 (HB/CTB)	05/09/11 – 14/04/13	Medway Magistrates Pleaded guilty to 2 x offences. Awarded an absolute discharge. No costs awarded.	Medway investigation and prosecution. Crown Prosecution Service guidance indicates an Absolute Discharge is where no further action is taken, since either the offence was very minor, or the court considers that the experience has been enough of a deterrent. The offender will receive a criminal record. Both the Housing Benefit overpayment and Council Tax recharge were repaid in full before the defendant attended court.
Totals (£)		£ 162,766.77 (HB/CTB) £93,320.90 (DWP)			

Table 2 – Benefits & Council Tax Reductions / Discounts – Cautions issued in the 3rd Quarter 2013/14
 (Amounts of overpayments outstanding as at 26/02/14)

Cautions					
Case ref.	Fraud Type	Fraudulent overpayment £	Period of overpayment or Evasion of liability	Date Caution accepted	Comment
12860 / 69839	LT	£959.86 (HB)	13/02/12 – 20/01/13	05/11/13	Claimant is currently repaying an existing Housing Benefit debt at the rate of £20pm. The total amount outstanding is currently £1,540.00
Total		£ 959.86 (HB)			

Table 3 – Benefits & Council Tax Reductions / Discounts – Administrative Penalties issued in the 3rd Quarter 2013/14

Administrative Penalties					
Case ref.	Fraud Type	Fraudulent overpayment £	Period of overpayment or Evasion of liability	Date Administrative Penalty issued	Comment
N/A	N/A	N/A	N/A	N/A	N/A

Table 4 – Housing Prosecutions completed in the 3rd Quarter 2013/14

Prosecutions					
Case ref.	Fraud Type	Fraudulent overpayment £	Period of overpayment or Evasion of liability	Court and sentence	Comment
13304 /	HOUSING	N/A	N/A	<p>Medway Magistrates</p> <p>Pleaded guilty to "knowingly or recklessly making a statement by way of an application form" under part vi of Section 171 of the Housing Act 1996.</p> <p>Sentenced to a Conditional discharge of 12 months. £300 costs £15 Victim surcharge to be paid at £10 p/w.</p>	<p>The fraud related to a false representation made on a Kent Homechoice Housing Application i.e. overstating the number of dependent children. The potential fraud was identified by Hyde Housing during the allocations process, which was suspended pending investigation. After the successful prosecution the applicant was informed their details had been removed from the Housing Register and they would no longer be able to bid for properties and will therefore be prevented from acquiring social housing in Medway.</p>

Table 5 – Benefits, Council Tax Reduction and Single Person Discount overpayments identified and recorded by the Corporate Anti-Fraud Team during the 3rd Quarter 2013/14 – With comparison to the same quarter in previous financial years.
 (The figure in brackets denotes the number of cases with identified overpayments).

Types of overpayment	3rd Qtr 2011/12 £	3rd Qtr 2012/13 £	3rd Qtr 2013/14 £
Housing & Council Tax benefit (HB/CTB)	170,619	337,630	127,236
Single Person Discount (SPD)	0	2,054	3,208
DWP benefits	116,124	474,268	103,444
Other (e.g. Tax Credits)	0	0	0
Totals	286,743	813,952	233,888

Key: -

Clmt Claimant

LT Living together as husband & wife

WC Working & claiming

CAP Failure to declare capital

ND Non Dependent

CofC Failure to report a change in circumstances

Inc Failure to declare income

QB9 Employer prosecuted for failing to supply information requested under Social Security Legislation.

SPD Single Person discount

Note re costs – Medway no longer receives details of Costs awarded where Crown Prosecution Service undertake proceedings on behalf of DWP / Medway Council.

INTERNAL FRAUD AND IRREGULARITY INVESTIGATIONS

Audit Services are responsible for undertaking investigations into possible fraudulent activity by members of council staff and contractors. Referrals requiring investigation by Audit Services are received from managers across the council or through the whistleblowing arrangements. In addition some investigations arise as a direct result of internal audit work.

Audit Services conduct an initial assessment of the case in order to determine whether an investigation is required. In some instances the referral will require nothing more than the provision of advice to management, who may be required to investigate the matter further, in compliance with the council's disciplinary policy. In some cases Audit Services undertake a full investigation, which may result in disciplinary and/or criminal proceedings.

There is an investigation protocol between Audit Services and HR which sets out how the respective roles of the two teams when undertaking investigations into suspected employee fraud. The protocol was agreed in 2013 and has resulted in an increased number of referrals to Audit Services.

The table below sets out the completed internal fraud and irregularity investigations undertaken, and advice provided, since the last report presented to Audit Committee (excluding those cases which have to be reported as a restricted item, in line with Data Protection Act requirements). The table includes a summary of control weaknesses identified and management actions agreed.

Referral	Audit Services Involvement	Finding	Control Improvements
Corporate Credit Card – Fraudulent expenditure on a corporate credit card of a senior manager – two successful transactions totalling £80.30. Both transactions refunded by NATWEST	Review whether any indications the transactions were by a member of staff AND a review of control arrangements	There was nothing to indicate that the fraudulent transactions involved any member of council staff. None of the transactions required the physical credit card. Prior to the fraudulent transactions the card had been used for procuring goods and services from a number of providers and as such there is every possibility that the card details were stolen as a result of one of these interactions with an external agency.	The central procedures for issuing cards, monitoring card usage and dealing with the statements were satisfactory. However a number of control weaknesses were identified during the investigation. <ul style="list-style-type: none"> a) Initial card limits are agreed by the Chief Finance Officer but requests for increasing card limits are authorised by finance management without recourse to

Referral	Audit Services Involvement	Finding	Control Improvements
			<p>the Chief Finance Officer. <i>Process amended to ensure CFO authority sought.</i></p> <p>b) Cards should be retained by the allocated member of staff but we found that staff were handing the cards to other members of staff for use in procurement transactions. <i>Reminder sent to all card holders.</i></p> <p>Both issues have now been addressed. An audit of corporate credit cards is included in the proposed audit plan for 2014/15.</p>
<p>Payments to agency providing domiciliary care – complaint by member of the public that the council is being charged for work not undertaken.</p>	<p>Support management in initial investigation of information and identify any potential enhancements to the controls in place</p>	<p>There had been delayed updates on the corporate system which initially indicated that there were errors in the payments. The management review confirmed that the payments to the agency were in fact correct. Audit Services liaised with management regarding the difficulties of how assurance of attendance can be obtained.</p>	<p>There are intrinsic difficulties in verifying attendance data of domiciliary workers. Consideration is being given to electronic attendance systems being rolled out which would improve the current arrangements.</p> <p>The delay in recording of client changes is something that needs to be addressed in order to minimise inaccuracies. An audit of domiciliary care is included in the proposed audit plan for 2014/15.</p>