

AUDIT COMMITTEE

14 JULY 2015

CORPORATE FRAUD

Report from: Katey Arrowsmith, Head of Internal Audit and Counter Fraud

Author: Janice Wellard, Fraud Manager

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 that 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 **Appendix A**, along with a year on year comparison of identified overpayments with the prior two years. This report relates to Quarter 4 of 2014/15.

2.3 Audit Services are responsible for investigating all suspected fraud perpetrated against the council by employees and contractors. **Appendix 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. Disciplinary issues emanating from investigations

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

3.2 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. In this case there are none to report.

4. National Fraud Initiative (NFI) 2014/15 - Update

- 4.1 The main NFI is a biennial exercise for all councils in England and Wales.
- 4.2 After the closure of the Audit Commission in March 2015, the function transferred to the Cabinet office. New internet pages within .GOV.UK now provide Cabinet Office guidance on the NFI.
- 4.3 Medway completed the data file upload in October 2014. All prescribed datasets were uploaded; with the exception of personal alcohol and taxi driver licences.
- 4.2 Output from the matching exercise was made available in January 2015. There were further supplementary releases of matches in April and May, including Department for Work and Pension and Ministry of Defence payroll data.
- 4.3 The Council Tax SPD matching module is now an annual NFI exercise. Single Person Discount and "Rising 18" information was matched against Electoral Registration records via the NFI Flexible Matching Service (FMS) web application. Data submitted on 16 December 2014 was processed and returned on the same day.
- 4.4 Reports are currently being actively progressed by the relevant services, with assistance from the Corporate Anti-Fraud Team and the Department for Work and Pensions Fraud Investigation Service (FES).
- 4.5 There are a total of 9,081 matches in the general NFI, with 2,893 or 32% denoted as recommended and 2,091 matches in the Council Tax / Electoral Register exercise, all of which are recommended.
- 4.6 In accordance with Cabinet Office Guidance, reports and individual matches denoted as having "Higher importance" are being given priority.
- 4.7 A full update on both NFI exercises will be provided to Audit Committee in September 2015.

5. Single Fraud Investigation Service (SFIS)

- 5.1 The Single Fraud Investigation Service was introduced to investigate Welfare Benefit Fraud. It is owned, managed and led by the Department for Work and Pensions.
- 5.2 Upon transfer the Local Authority will no longer have the authority to investigate or prosecute Housing Benefit Fraud.
- 5.3 The national roll-out of the implementation exercise commenced in July 2014 and will continue through to March 2016. Medway remain scheduled to transfer on 1 February 2016.
- 5.3 The Medway implementation process will start in July with a Human Resources (HR) Engagement Event followed by a Start Up meeting in August 2015.

- 5.4 Medway has nominated the following officers to engage with the DWP Project Team throughout the implementation process: -
- Terri Williams (Resourcing Manager) - Human Resources - Single Point of Contact (SPOC)
 - Katey Arrowsmith (Head of Internal Audit and Corporate Fraud) - SPOC responsible for the operational element of the implementation process.
- 5.5 Currently there is no provision for joint working between SFIS and Local Authorities. A Cross-Government Joint Working Group feasibility study is currently considering if joint investigations and prosecutions will be possible on relevant non-welfare benefit fraud types including:
- Local Council Tax Reduction Scheme:
 - Council Tax related fraud including Council Tax exemptions and Single Person Discount
 - Welfare Support (formerly Social Fund)
 - Social Housing Tenancy Fraud (including Right to Buy)
 - Social Care including Direct Payment and Care Home fees
 - Discretionary Housing Benefit Payments (DHP).

6. Risk Management, Financial and Legal implications

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

7. Recommendation

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

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Appendices

Appendix A – External Investigation Outcomes
Appendix B – Internal Fraud and Irregularity Outcomes

Background papers

Sanction Policy (revised 2006) & Anti-Fraud & Corruption Policy (updated August 2012)
Fraud Resilience Strategy 2014/16 – presented to Audit Committee March 2014 and updated in September 2014 and March 2015.

External Investigation Outcomes

Table 1 – Benefits & Council Tax Reductions / Discounts - Prosecutions completed in the 4th Quarter 2014/15

(Amounts of overpayments outstanding as at 18/06/15)

Prosecutions					
Case ref.	Fraud Type	Fraudulent overpayment £	Period of overpayment or Evasion of liability	Court and sentence	Comment
12651 / 1022196	LT	£37,063.74 (HB/CTB)	10/09/07 – 05/11/12	Maidstone Crown	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. DWP conducted a Financial Investigation, alongside the criminal investigation. Their subsequent application for a Confiscation Order under Proceeds of Crime Act 2002 (POCA) was rejected by the Judge on the grounds the defendant did not have sufficient means. No longer in receipt of DWP or Medway benefits. A total HB overpayment of £32,398.89 remains outstanding.
		£57,129.28 (IS)	03/03/07 – 07/11/12	Found guilty of: 2 x Medway offences 1 x DWP offences Sentenced to: 21 month prison sentence, suspended for 2 years. No Costs.	
12801 / 1056215	LT	£11,476.23 (HB/CTB)	09/08/10 – 31/08/12	Dartford Magistrates	Medway led investigation and prosecution. The claimant is no longer in receipt of DWP or Medway benefits. Outstanding Housing Benefit overpayment of £10,148.11. In February 2015 a Direct Earnings Attachment notification was sent to her current employer to commence deductions from her salary. No payments were received so a further letter was sent to the employer on 29 May 2015 requesting they commence deductions immediately.
		£3,567.20 (IS)	21/03/11 – 31/08/12	Found guilty of: 6 x Medway offences 1 x DWP Offence Sentenced to: 7 x 6 months custody, suspended for 2 years, to run concurrently. 300 hours unpaid community work. £600 Costs. £80 Victim surcharge.	

13169 / 1066455	LT	£3,990.38 (HB/CTB/CTR) £2,057.77 (SPD) £3,936.54 (ESA)	16/07/12 – 16/02/14 01/04/06 – 31/03/14 24/03/13 – 21/02/14	Medway Magistrates Found guilty of: - 5 x Medway offences 1 x DWP offence Sentenced to: 3 month Community Order with a curfew requirement of 3 months to run daily between 7pm and 7am. Also required to attend a Women's Group for 14 sessions. £500 Costs. £60 Victim surcharge.	Medway led investigation and prosecution. The claimant is no longer in receipt of Medway or DWP Benefits. The Housing benefit overpayment is currently being recovered at the rate of £5 per month, through a Debt Management Plan. The outstanding balance is £2,371.65.
13185 / 1026472	CofC	£9,826.09 (HB/CTB/CTR)	21/02/11 – 11/08/13	Medway Magistrates Found guilty of: - 8 x Medway offences Sentenced to: 12 month Community Order with 150 hours unpaid work. No costs. £60 Victim Surcharge.	Medway investigation and prosecution. Current weekly Housing Benefit entitlement is £12.92pw. The overpayment is currently being recovered from on- going benefit at the rate of £11.10pw. The overpayment balance outstanding is currently £8,439.56.
13319 / PA3655	CofC	£6,159.41 (HB/CTR)	21/05/12 – 15/06/14	Medway Magistrates Found guilty of: - 2 x Medway offences Sentenced to: £150 fine. £360 Costs £20 Victim surcharge.	Medway led investigation and prosecution. Claimant is no longer in receipt of Medway benefits. The Housing Benefit overpayment is currently being repaid at the rate of £70 per month, with an outstanding balance of £3,827.80.

13601 / 1045343	L/T	£19,882.65 (HB/CTB) £16,896.52 (Tax Credits) £10,032.38 (I/S)	01/08/11 – 21/04/14 13/08/11 – 20/06/14 29/07/11 – 21/04/14	Medway Magistrates Found guilty of: - 1 x Medway offence 1 x DWP offence 1 x HMRC offence (Tax credit) Sentenced to: - 120 days prison, suspended for 18 months. 100 hours unpaid work. £80 Victim surcharge.	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. Claimant continues to receive Housing benefit and Council Tax Support. The Housing Benefit overpayment is currently being recovered from on-going benefit at the rate of £11.10 per week. The current balance outstanding is £18,144.41.
13678 / 1055852	WC	£9,005.89 (HB/CTB) £7,389.87 (ESA / JSA)	07/03/11 – 27/10/13 03/04/11 – 05/09/13	Medway Magistrates Found guilty of: - 2 x Medway offences 3 x DWP offences Sentenced to: - 12 months Community Order. 4 months tagged curfew between the hours of 7pm – 7am. £85 Costs. £60 Victim surcharge.	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. Claimant continues to receive Housing benefit and Council Tax Support. The Housing Benefit overpayment is currently being recovered from on-going benefit at the rate of £11.10 per week. There was a previous outstanding overpayment on the claim. The current balance of the combined HB debt is £10,653.54.
13704 / 5314	WC	£12,240.57 (HB/CTB) £8,454.62 (PC)	30/06/08 – 08/06/14 25/02/08 – 25/05/14	Medway Magistrates Found guilty of: - 2 x Medway offences 1 x DWP offence Sentenced to: - 4 months imprisonment on each of the 3 counts, to run	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. Claimant continues to receive Housing Benefit and Council Tax Support. The Housing Benefit overpayment is currently being recovered from on-going benefit at the rate of £18.95 per week. The current balance outstanding is £9,109.02.

				concurrently, suspended for 2 years.	DWP conducted a Financial Investigation, alongside the criminal investigation. At the sentencing hearing a timetable for POCA proceedings was set out. The Confiscation Hearing was due to take place on 05/06/15 but was adjourned due to technical issues.
13137 / 1061315	LT	£8,468.69 (HB/CTB) £4,116.86 (IS)	04/06/12 – 14/07/13 30/05/12 – 08/07/13	Medway Magistrates Found guilty of: - 2 x Medway offences 1 x DWP offence Sentenced to: - 12 month Community Order (200 hours unpaid work)	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. Claimant is no longer in receipt of Medway benefits. The Housing Benefit overpayment currently outstanding is £6,914.82. Debtor made an arrangement with Bailiffs, but subsequently stopped making payments. The debt has now been returned by the agency. Other methods of recovery action are currently being considered.
13578 / 1012757	CAP	£7,989.23 (CTB) £31,226.37 (IS/JSA)	08/07/06 – 31/03/13 26/07/05 – 05/04/13	Medway Magistrates Acquitted of all charges: 1 x Medway offence 2 x DWP offences	Department for Work and Pensions led prosecution, prosecuted by Crown Prosecution Service. The Council Tax Benefit was recharged to the customer's account. The current outstanding debt is £8,526.98, which includes other arrears. The customer is keeping to an arrangement to repay the debt at £16.88pw. This arrangement is due to be reviewed in August 2015.
Totals (£)		£ 126,102.88 HB/CTB/CTR £2,057.77 SPD £16,896.52 Tax Credit £125,853.12 (DWP)			

Table 2 – Benefits & Council Tax Reductions / Discounts – Cautions issued in the 4th Quarter 2014/15
 (Amounts of overpayments outstanding as at 18/06/15)

Cautions					
Case ref.	Fraud Type	Fraudulent overpayment £	Period of overpayment or Evasion of liability	Date Caution accepted	Comment
13622	CofC	3,109.18	05/12/11 – 06/11/13	09/01/15	The Housing Benefit overpayment is currently being repaid at the rate of £35 per month, with an outstanding balance of £2,828.98.
13745	SPD - CofC	152.67	01/10/14 – 31/03/15	21/01/15	Single Person Discount was recharged to account and paid in full.
13790	WC	2,129.97	07/09/12 – 12/10/14	20/02/15	The Housing Benefit overpayment is currently being recovered from on-going benefit at the rate of £11.10 per week. The current balance outstanding is £1,400.44.
14097	WC	4,435.37	05/08/13 – 02/11/14	11/03/15	The Housing Benefit overpayment is currently being repaid at the rate of £40 per month, with an outstanding balance of £4,623.96 (note there was an additional outstanding overpayment unrelated to this investigation).
14070	CofC	2,025.05	08/07/13 – 23/11/14	11/03/15	The Housing Benefit overpayment is currently being recovered from on-going benefit at the rate of £18.50per week. The current balance outstanding is £1,392.61.

Table 3 – Benefits & Council Tax Reductions / Discounts – Administrative Penalties issued in the 4th Quarter 2014/15

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 – Benefits, Council Tax Reduction and Single Person Discount overpayments identified and recorded by the Corporate Anti-Fraud Team during the 4th Quarter 2014/15 – With comparison to the same quarter in previous financial years.

Types of overpayment	4th Quarter 2012/13 £	4th Quarter 2013/14 £	4th Quarter 2014/15 £
Housing Benefit (HB)	144,307	88,834	276,455
Council Tax Benefit (CTB)	31,554	23,590	16,879
Council Tax Reduction (CTRS)	N/A	5,806	22,002
Single Person Discount (SPD)	0	475	2,297
Other Council Tax Discounts	0	0	0
Discretionary Housing Payment (DHP)	0	0	0
DWP benefits e.g. JSA / IS / ESA	32,767	52,367	37,936
Pension Credit (PC)	7,552	33,349	22,922
Other (e.g. Tax Credits)	0	37,352	36,445
Social Care	0	0	3,749
Totals	216,180	241,773	418,685

Table 5 – Benefits, Council Tax Reduction and Single Person Discount overpayments identified and recorded by the Corporate Anti-Fraud Team during last 3 financial years

Types of overpayment	2012/13 £	2013/14 £	2014/15 £
Housing Benefit (HB)	674,286	359,647	906,438
Council Tax Benefit (CTB)	156,973	91,021	94,190
Council Tax Reduction (CTRS)	0	12,875	44,273
Single Person Discount (SPD)	2,054	2,949	9,402
Other Council Tax Discounts	0	0	1,977
Discretionary Housing Payment (DHP)	0	0	2,358
DWP benefits e.g. JSA / IS / ESA	480,443	278,162	430,521
Pension Credit (PC)	63,264	52,519	49,022
Other (e.g. Tax Credits)	112,567	91,976	170,744
Social Care	0	0	3,749
Totals	£1,489,587	£889,149	£1,712,674

Table 6 – Source of referrals which led to identification of Benefit and Council Tax overpayments recorded by the Corporate Anti-Fraud team during last 3 financial years

Source of referrals	2012/13 Number of referrals	2013/14 Number of referrals	2014/15 Number of referrals
Anonymous	10	3	7
Audit	2	1	2
Benefit Assessment officers	11	6	9
Corporate Anti-Fraud team	1	1	2
Council Tax officers	0	1	1
Department for Work and Pensions (DWP)	40	29	35
Housing Benefit Matching Service data match (HBMS)	7	2	4
Hotline	0	0	2
Landlord	1	1	1
Local Authority	2	1	1
Member of public (willing to identify themselves)	1	0	1
National Fraud Initiative (NFI)	10	37	27
Other Medway Department	3	3	1
Police	1	0	2
Real Time Information data match (RTI)	0	0	56
Total	89	85	151

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.

FR False representation
FT False tenancy
SPD Single Person discount
HB Housing Benefit
CTB Council Tax Benefit
CTR Council Tax Reduction

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
<u>Attempted cheque fraud</u> Identified during standard bank reconciliation pre-payment exercise conducted by Control Team Leader.	Advice / review of controls.	2 x fraudulent cheques, with a face value of £4,980.55 and £4,967, presented for payment, but not paid. Bank Fraud team notified.	None.

Referral	Audit Services Involvement	Finding	Control Improvements
<p><u>Attempted mandate fraud</u> Bogus change of bank account details. Identified by Exchequer Officer.</p>	<p>Advice / review of controls. Report to NAFN to alert other Local Authorities.</p>	<p>Reported to the police. Subsequently became aware of 2 x further attempts (KCC / Kent Fire). No financial loss to Medway. Potential loss could have been significant had the account details been changed.</p>	<p>None.</p>