

AUDIT COMMITTEE

12 JANUARY 2016

FRAUD RESILIENCE STRATEGY 2014-2016 UPDATE

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Summary

To provide Members with an update on the work of the Audit & Counter Fraud Team against the agreed Fraud Resilience Strategy 2014-2016.

1. Budget and Policy Framework

- 1.1. Council delegates responsibility for the oversight and monitoring of audit services to the Audit Committee.

2. Background

- 2.1. In 2011 the council commissioned an external review of its fraud resilience and the required improvements identified were used to develop council's first Fraud Resilience Strategy (FRS) 2012-2014. The 2014-16 FRS was intended to build on the improvements implemented through the first strategy and was approved by the Audit Committee on 20 March 2014.

3. Fraud Resilience Strategy 2014 to 2016 – January 2016 update

- 3.1. An update on the activity of the team in each of the Key Risk Areas identified in the FRS is provided for Members at Appendix A.
- 3.2. Members will be aware of the significant changes taking place in the council's Internal Audit & Counter Fraud services during the 2015-16 financial year, and detailed updates are provided through items elsewhere on this agenda. As a result of the significant work required to ready the council for the transfer of Housing Benefit Investigations to the Department for Work & Pensions Single Fraud Investigation Service (DWP SFIS), and in the development of the shared service with Gravesham, the council's available counter-fraud resources have been primarily directed to Housing Benefit and Council Tax activities.

4. Future of counter fraud work

- 4.1. From 1 April 2016, Internal Audit & Counter Fraud services will be delivered for Medway Council and Gravesham Borough Council through a new Shared

Service.

- 4.2. The Shared Service will bring the disciplines of audit and fraud more closely into alignment and as such the service will prepare one combined Audit & Counter Fraud work plan for each year. The Audit & Counter Fraud Plan for Medway Council for 2016-17 will be presented for Members approval in March 2016.

5. Risk management

- 5.1. This report, summarising the work of the counter fraud function, provides a key source of assurance for the council on the adequacy and effectiveness of its arrangements to respond to fraud risk.

6. Financial implications

- 6.1. An adequate and effective internal counter fraud function provides the council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the council.

7. Legal implications

- 7.1. The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them. Section 151 of the Local Government Act 1972 requires the council to “make arrangements for the proper administration of their financial affairs”. Funding received via a Central Government Administration Grant requires Local Authorities to maintain arrangements to prevent fraud and error in the welfare benefits that they administer.

8. Recommendations

- 8.1. Members are asked to note progress in the delivery of the FRS.

Lead officer contact

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Appendices

Appendix A – Fraud Resilience Strategy update.

Background papers

None

Fraud Resilience Strategy 2014 to 2016 – Action Plan Update (January 2016)

	Key Risk Areas (key at foot of table)	Audit Services actions to date
1.	Council Tax (C/T) (building on 2012/14 FRS actions)	<ul style="list-style-type: none"> • Assurance provided by: - <ul style="list-style-type: none"> ➢ Council Tax 2013/14 internal Audit (issued 19 June 2014) ➢ Council Tax 2014/15 Financial Audit (issued 01 May 2015) • NFI 2013/14 - SPD to Electoral Registration: <ul style="list-style-type: none"> ○ 1211 SPD matches ○ 242 Rising 18's matches ○ MRBS undertook a 100% sample ○ 105 errors / frauds were identified – value £34,261 ○ CAFT dealt with 27 fraud referrals emanating from exercise ○ 1 Caution issued ○ 12 cases remain subject to investigation. • NFI 2014 - SPD to Electoral Registration: <ul style="list-style-type: none"> ○ Data released 16 December 2014 ○ Changed from biennial to annual exercise ○ 1899 SPD matches ○ 192 Rising 18's matches ○ MRBS reviewed 66% of the SPDs and 100% of the Rising 18's ○ 114 errors were identified – value £26,309.75 ○ CAFT dealt with only 1 referral emanating from the exercise. However basic enquiries (including credit reference searches) were undertaken by CAFT to support the SPD review process. • NFI 2015 – SPD to Electoral Registration: <ul style="list-style-type: none"> ○ Data released 08 December 2015 ○ 1238 SPD matches ○ 140 Rising 18's matches ○ Of the 1238 SPD's, 332 (27%) have been reported in previous exercises. ○ Approx. 27% of the SPD matches have Council Tax Reduction flags

		<ul style="list-style-type: none"> • Between 01 April 2014 and 16 December 2015 CAFT raised a total of 38 files relating to allegations of Council tax fraud through: - <ul style="list-style-type: none"> ○ false application for discounts and exemptions ○ failure to disclose changes effecting discounts and exemptions ○ council tax evasion Fraud was established in 6 of the 38 cases – resulting in one Prosecution and one Caution. (This excludes cases which relate to Council Tax Reduction as these are reflected in the Benefit outcomes detailed at Point 2.) • CAFT continue to consult with MRBS / Customer Contact regarding the level of fraud risk and key priorities including: - Review of the Sanctions Policy / Review of forms and documentation supporting applications.
2.	<p>Housing Benefits (HB) (building on 2012/14 FRS actions)</p>	<ul style="list-style-type: none"> • Assurance provided by: - <ul style="list-style-type: none"> ➢ Housing Benefits 2013/14 internal Audit (issued 30 April 2014) ➢ Housing Benefits 2014/15 internal Audit (issued 18 May 2015) • Benefit fraud statistics 01 April 2014 – 16 December 2015 <ul style="list-style-type: none"> 1155 Referrals received 391 Files subject to investigation and closed 48 Successfully prosecuted 3 Found not guilty 16 Local Authority Cautions 2 Administrative Penalties • Overpayments recorded by CAFT 01 April 2014 – 16 December 2015 <ul style="list-style-type: none"> £1,533,483 Housing Benefit £ 138,093 Council Tax Benefit £ 92,545 Council Tax Reduction £ 4,432 Discretionary Housing Payment (DHP) <u>£ 871,919</u> DWP / HMRC Benefits £2,640,472 Total

		<ul style="list-style-type: none"> • NFI (2012/13) CAFT actions included: - <ul style="list-style-type: none"> ○ Completed 100% review of the (445) Medway payroll to benefit matches which identified £192,204 in overpaid benefits / Council Tax Reduction. ○ Provided support and guidance to MRBS regarding non-Medway staff NFI matches. • NFI (2014/15) CAFT actions included: - <ul style="list-style-type: none"> ○ Completed 100% review of the (286) Medway payroll to benefit matches which identified £30,373 in overpaid benefit / Council Tax Reduction. ○ A further £146,901 was identified from other reports e.g. Student Loans / other LA payrolls / Pensions. ○ CAFT undertook investigations emanating from the exercise and provided support and guidance to MRBS and DWP FES Officers tasked with sifting the other reports, ensuring all benefits were regulated and outcomes accurately recorded.
<p>3.</p>	<p>Tenancy Fraud / Housing / Right to Buy (RTB) (building on 2012/14 FRS actions)</p>	<ul style="list-style-type: none"> • Assurance provided by: - <ul style="list-style-type: none"> ➢ 2013/14 Housing Rents annual internal audit (issued 15 May 2014) ➢ 2014/15 Housing Rents annual internal audit (issued 30 April 2015) • Tenancy fraud statistics 01 April 2014 – 16 December 2015 <ul style="list-style-type: none"> 10 Referrals received relating solely to Housing where no Benefits were involved 2 Rejected prosecutions where customers removed from Housing Application list 1 Tenancy relinquished 1 Prosecution involving £86,255 Medway / DWP Benefits + property recovered. • CAFT continue to work with Housing Services to increase the volume and quality of referrals. • By reference to various internal and external information sources CAFT assisted Housing Services in reviewing the 27 x NFI 2014/15 Housing and Right to Buy (RTB) matches. • CAFT provided advice to Housing in relation to their new Tenancy Fraud Policy (issued April 2014). The policy provides officers with guidance on ID verification and risk-based tenancy audits.

		<ul style="list-style-type: none"> • A new fraud referral process was introduced in November 2014 which gave Housing officers facility to make referrals direct from the Housing system. This provides more effective management monitoring and reporting. • CAFT have received training on the Academy Housing system and utilise the system for both Housing and non-housing investigations. • CAFT continue to provide assistance in the verification of RTB and succession applications.
4.	<p>Local Business Rates (LBR) (new)</p>	<ul style="list-style-type: none"> • Assurance provided by: - <ul style="list-style-type: none"> ➢ 2013/14 Local Business Rates annual internal audit (issued 19 June 2014) ➢ 2014/15 internal Audit (issued 01 May 2015). • CAFT have consulted with MRBS and Customer Contact to identify priorities for targeted referral work e.g. Application and verification process for the award of - Charity & Community Amateur Sports Club Relief, Unoccupied Property Relief, Small Business Rate Relief.
5.	<p>Free School Meals (new)</p>	<ul style="list-style-type: none"> • CAFT is commenced a review of Free School Meals to provide assurance on the FSM review process: <ul style="list-style-type: none"> ➢ To estimate the level of financial loss in both FSM (free school meals) and FST (free school transport). ➢ To identify data sharing opportunities between Medway Departments. ➢ Identify fraud and error – i.e. within FSM, Council Tax Discounts, and Benefits. <p>The target date for completion of this work was 30 April 2015; however the field work could not be completed due to limited resources in both teams.</p> • CAFT will undertake investigations identified during the proactive review of Free School Meals.

6.	Concessionary travel passes (new)	<ul style="list-style-type: none"> • NFI 2012/14 – A total of 335 matches against DWP Deceased Persons records. At the time the data was released 321 of the 335 passes had expired. The remaining 14 travel passes were reviewed and cancelled. • NFI 2014/15 – A total of 1082 matches were received. CAFT assisted the service by: <ul style="list-style-type: none"> ➤ Checking the data output against local records ➤ Exploring the reason(s) behind the significant increase in matches, which identified data sharing between departments might minimise the risk ➤ Established there was no fraud involved in the 30 matches where the date of death preceded the permit start date. • CAFT liaised with KCC in relation to issuing guidance on misuse and abuse of concessionary travel passes. • Audit Services provide consultative support and undertake investigations where required.
7.	Staff Mileage (carry forward from 2012/14 FRS actions)	<ul style="list-style-type: none"> • Targeted reviews of “mileage claims” and “personal mileage in council vehicles” were postponed. • The planned reviews will now be undertaken after the SFIS transfer is completed, when Audit Services will have more resources available to concentrate on non-benefit work. • CAFT will undertake investigations emanating from the two reviews.
8.	Review of safes in council offices (new)	<ul style="list-style-type: none"> • Audit Services undertook a fraud resilience review on a number of safes in Council offices.
9.	Discretionary Housing Payments (DHP) (new)	<ul style="list-style-type: none"> • The DHP fund for Medway for 2013/14 was £563,046. Actual DHP awards totalled £355,618, with a £207,428 underspend. • The DHP fund increased for 2014/15 to £598,000. DHP awards totalled £269,116, with a £329,778 underspend.

		<ul style="list-style-type: none"> • MRBS undertook a review of their procedures to: - <ul style="list-style-type: none"> ➢ ensure the 2014/15 fund was better utilised ➢ ensure consistency with DHP guidance ➢ actively encourage Housing Providers to assist tenants make DHP applications, highlighting eligibility criteria. ➢ consider CAFT advice around fraud prevention and detection. • The DHP fund for 2015/16 was reduced to £372,112, which reflects both the local and national trend of DHP underspends. The average reduction across Kent was 29.1%. • As at 16 December 2015 a total of £199,823 had been paid out in DHP, with a further £18,325 committed, leaving £153,964 “uncommitted”. • Between 01 April 2014 and 16 December 2015 CAFT identified £4,432 in overpaid DHP. • DHP is not a Welfare Benefit it is therefore unlikely SFIS will investigate allegations of DHP fraud, which are generally identified whilst undertaking benefit investigations.
10.	<p>Staff Vetting (carry forward from 2012/14 FRS actions)</p>	<ul style="list-style-type: none"> • Assurance provided by the 2014/15 operational internal audit of Disclosure and Barring Service (DBS) (Part 2) issued 31 December 2014. A follow up review has been conducted and is reported elsewhere on this agenda. • CAFT have provided advice to management and HR in relation to a small number of individual staff vetting issues. • Whilst undertaking some initial investigations CAFT reviewed documentation supporting recruitment, references and qualifications of staff. Any generic control issued identified were shared with management. • A planned review to sample “new starters” and “recruitment into key positions”, with a consultative review of vetting arrangements has been deferred until after the SFIS transfer.

<p>11.</p>	<p>Personal Budgets (building on 2012/14 FRS actions)</p>	<ul style="list-style-type: none"> • A fraud referral process was agreed and CAFT undertake investigations where potential fraud is identified. • Personal Budget data was submitted to the NFI for the first time in October 2014. Medway data was matched against other bodies direct payment records, pensions, housing benefit and Amberhill data (false identity documents). CAFT actions include: - <ul style="list-style-type: none"> ○ reviewed and closed 136 of the 155 matches received ○ liaised with management regarding the remaining 19 matches ○ there were no financial irregularities identified as a consequence of this data match exercise. • CAFT have provided consultative support to management, within both Adult Social Care and Customer Contact. • CAFT officers have attended training provided by Client Financial Affairs. • CAFT have attended Adult Safeguarding meetings and offered support to multi-agency SVA investigations.
<p>12.</p>	<p>Blue badge (building on 2012/14 FRS actions)</p>	<ul style="list-style-type: none"> • CAFT officers authorised to inspect and retain badges suspected of misuse / abuse, continue to work with Parking Services (enforcement) and the Admin Hub (responsible for the administration of Blue Badges). • Between 01 April 2014 and 16 December 2015 CAFT investigated or advised: <ul style="list-style-type: none"> ○ 38 allegations of Blue Badge misuse or abuse ○ 14 allegations of Disabled Parking Bays misuse or abuse. • There have been no Blue Badge prosecutions, but one Caution has been issued. • 2014/15 NFI – A total of 702 matches received. The Blue Badge Administration Team have proceed 512 and 165 remain subject to further enquiries. CAFT actions include: - <ul style="list-style-type: none"> ➤ training and guidance (provided to management in February 2015)

		<ul style="list-style-type: none"> ➤ investigation and closure of the one match where date of death predated the badge issue date ➤ provision of resources to assist in the checking of data output <ul style="list-style-type: none"> • CAFT were going to undertake a proactive exercise to check a number of new and renewal applications against other Medway records (including Housing benefit and Council Tax records), however this has been postponed pending the SFIS transfer, when more resources will be available.
13.	Category Management (new)	<ul style="list-style-type: none"> • Internal Audit continue to work with management to develop a procurement governance review which can be undertaken by management and Audit Services jointly on an annual basis. • The Head of Internal Audit has reviewed and provided control advice on draft category management policies and procurement gateway documents.
14.	Corporate Credit Cards (new)	<ul style="list-style-type: none"> • Assurance provided by the 2014/15 financial audit of Corporate Credit Cards – issued 3 July 2014. • Audit Services undertake investigations as required.
15.	Taxation – Creditor Payments (new)	<ul style="list-style-type: none"> • The internal audit of Taxation – Creditor Payments (issued 27 February 2015) will provide assurance on arrangements, concentrating on: - <ul style="list-style-type: none"> - CIS - Consultants - VAT • Audit Services undertake investigations as required.
16.	Grant Fraud (building on 2012/14 FRS actions)	<ul style="list-style-type: none"> • Assurance provided through the proposed internal audit of Economic Development. • CAFT to provide consultative support. • CAFT undertake investigations as required.

Appendix A

17.	Schools (building on 2012/14 FRS actions)	<ul style="list-style-type: none"> • Internal Audit has recently completed the programme of school probity reviews. • Internal Audit give presentations to school governing bodies on the results of the individual school review and emerging fraud risks. • Internal Audit provided presentations to school governors on fraud resilience. • The Chief Finance Officer and Internal Audit are working with Governors Services and Education Finance to develop further training and guidance for school governors on fraud risk and governance issues. • Audit Services undertake investigations as required.
18.	Promote the use of the new Fraud Hotline / Consider data collection (building on the 2012/14 FRS actions)	<ul style="list-style-type: none"> • CAFT have liaised with management across the council to ensure the telephone number is promoted by all services. • Currently the Hotline offers 5 options: - <ul style="list-style-type: none"> - Council Tax, Benefits, LBR (received by CAFT) - Housing - Blue Badge Fraud - Financial Abuse (received by C&A) - Other (received by Audit Services Manager) • Audit Services continue to monitor the volume and nature of calls received via the Hotline. The vast majority of calls received are unrelated to fraud; with callers requesting transfers to other departments, in order to avoid the telephony queue on the main Medway telephone number.
19.	Data matching (building on 2012/14 FRS actions)	<ul style="list-style-type: none"> • Internal Audit currently uses a data analysis tool to interrogate large data sets. Audit Services will continue to explore different options for utilising the product in reactive and proactive fraud work. • DCLG confirmed in November 2014 that the KCC led bid for Counter Fraud funding had been successful. CAFT continue to liaise with KCC in relation to the roll-out of the Kent

		<p>Intelligence Network which will develop data sharing opportunities amongst partner to minimise the risk of fraud and error and increase revenue through Council Tax collection.</p>
20.	<p>NFI (building on 2012/14 FRS)</p>	<ul style="list-style-type: none"> • Audit Services liaised with management in relation to data quality, fair processing notices and data submission/output in preparation for the NFI exercises. • NFI 2015 Council Tax SPD / Rising 18 to Electoral Register data was released 16 December 2014. • NFI 2014/15 data was released 29 January 2015. • NFI Council Tax SPD / Rising 18 to Electoral Register data was released 08 December 2015. • Audit Services investigate allegations of fraud arising from the NFI exercises and ensure the Reporting Tool accurately reflects outcomes.
21.	<p>Data Quality – Fraud Reporting (new)</p>	<ul style="list-style-type: none"> • Annual Fraud and Corruption Surveys were previously conducted by the Audit Commission and the product reported in the annual “Protecting the Public Purse” reports. After the closure of the Audit Commission the function transferred to CIPFA, however TEICCAF (The European Institute for Combating Corruption and Fraud) launched a similar survey at the same time. Audit Services will collect, collate and submit Medway Council fraud data to the appropriate bodies. • The Local Government Transparency Codes now require Local Authorities to publish specific fraud data. Medway’s 2013/14 and 2014/15 fraud data is available on the “Council spending data” web page. (http://www.medway.gov.uk/thecouncilanddemocracy/finances/councilspendingdata.aspx) • Audit Services will consider the need for further review of risk logs, service plans, service delivery, policies and procedures to ensure the three main strands of an anti-fraud culture are embedded: <ul style="list-style-type: none"> - Acknowledge - Detect & Prevent - Pursue

22.	Internal Investigations – Protocols (building on 2012/14 FRS actions)	<ul style="list-style-type: none"> • Audit Services have worked with Human Resources and Legal Services in reviewing the HR protocol to ensure data sharing issues, roles and responsibilities are clear. • A further review will be conducted which may include the introduction of an “investigation plan”, signed off by all parties at the commencement of each investigation – setting out the roles, key stage dates etc.
23.	Fraud Web pages & reporting fraud on line (new)	<ul style="list-style-type: none"> • CAFT met with the Web and Digital Communications Manager regarding a review of the current web pages. • CAFT will continue to work with communications to develop an effective fraud reporting tool and informative fraud web pages.
24.	Change Management (new) <ul style="list-style-type: none"> • Fraud risk may not be considered or managed appropriately during the implementation of a change • Missed opportunity as fraud resilience may not be built into the new arrangements. 	<ul style="list-style-type: none"> • Assurance provided through the authority wide internal audit Change management report (issued 09 March 2015). • The former Head of Internal Audit input into the post implementation review of the “Better for Less” roll-out. • Audit Services will offer consultative support to management to help ensure fraud risk is fully assessed and resilience embedded as part of service delivery change. • The internal audit plan for 2015/16 included consultancy work to assist management in the development of new processes and systems; ensuring fraud resilience is built in.

- **Key: -**
 - CAFT (Corporate Anti-Fraud Team)
 - C/T (Council Tax)
 - CTR (Council Tax Reduction)
 - DBS (Disability & Barring Service)
 - FRS (Fraud Resilience Strategy)
 - HB (Housing Benefit)
 - LBR (Local Business Rates)
 - MRBS (Medway Revenues & Benefits Service)

- NFA (National Fraud Authority)
 - NFI (National Fraud Initiative)
 - PPP (Protecting the Public Purse – 2014)
 - RTB (Right to Buy)
 - S-FIS (Single Fraud Investigation Service)
 - SPD (Single Person Discount)
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- **The number attached to each Key Risk Area has no relevance; it does not denote the order in which each item will be progressed or infer any significance in terms of risk or value.**