

# AUDIT COMMITTEE

## 12 JANUARY 2016

### CORPORATE FRAUD

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

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

#### 2. Background

2.1 The Anti-Fraud and Corruption Policy forms part of the 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 comparison of 2nd quarter overpayments identified during the previous two years. This report relates to Quarter 2 of 2015/16.

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 are provided to Audit Committee as an exempt item at **Appendix C**. Generally the disciplinary action would be

reported once the criminal matter is concluded.

#### **4. Single Fraud Investigation Service (S-FIS)**

- 4.1 Responsibility for the investigation of Medway Housing Benefit fraud will transfer to the Single Fraud Investigation Services (S-FIS) on 01 March 2016.
- 4.2 The Corporate Anti-Fraud Team (CAFT) is currently preparing paper case files in preparation for the transfer.
- 4.3 From mid-January new fraud referrals will be directed to the Fraud and Error Service for investigation.
- 4.4 CAFT are currently liaising with the MRBS to minimize any risk to the service.
- 4.5 After the transfer allegations of fraud relating to Council Tax Reduction Scheme / Discounts / Exemptions will remain with the Local Authority. Ultimately this may lead to a duplication of investigation and litigation action by the Local Authority and Fraud and Error Service.
- 4.6 In July 2015 Ministers from Department for Work and Pensions (DWP) and Department for Communities and Local Government (DCLG) met to discuss the findings of the Joint Working Group. This culminated in the launch of a six month pilot exercise, commencing 16 November 2015, with five Local Authorities working with their respective local DWP Fraud and Error Service teams to test the approach and develop the data sharing protocols.
- 4.7 Whilst awaiting the outcome of the Joint Working pilot Medway aim to work with the local Fraud and Error Service to explore opportunities for a collaborative approach to investigations.

#### **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 investigating fraud in accordance with the approved Anti-Fraud & Corruption policy.

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### **Appendices**

Appendix A External investigation outcomes.

Appendix B Internal investigation outcomes.

Appendix C Disciplinary issues emanating from investigations (Exempt Appendix – see agenda item no 16)

### **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.