

AUDIT COMMITTEE
30 JUNE 2016
CORPORATE FRAUD UPDATE

Report from: Katey Arrowsmith, Head of Audit & Counter Fraud
Audit & Counter Fraud (Chief Audit Executive)

Summary

To inform Members of matters relating to corporate fraud, including outcomes of investigations and fraud referrals received by the Corporate Anti Fraud Team. 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 anti-fraud 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 The Corporate Anti Fraud Team are responsible for a programme of work aimed at identifying procedural weaknesses that may impact on fraud prevention as well as investigating all allegations of suspected fraud perpetrated against the council by external clients, employees or contractors.

2.3 The results of investigative work form the performance statistics used for reporting purposes.

3. Investigations

3.1 The Corporate Anti Fraud Team undertook a number of investigations during quarter four in relation to Housing Benefit (HB) and Council Tax Reduction (CTR) or other forms of council tax discounts such as Single Person Discount (SPD).

3.2 As a consequence of these investigations almost £445,000 of fraud committed against Medway Council has been identified during quarter four

along with a further £34,000 in associated benefits paid by the Department for work and Pensions or HMRC.

- 3.3 During the same period, successful sanction action has been taken against 14 people. This consisted of five people receiving cautions, four people accepting administrative penalties and five people convicted in the criminal courts.
- 3.4 **Appendix A** contains the full details of Prosecutions, cautions and administrative penalties relating to benefits and council tax reductions for quarter four. It also shows a breakdown of overpayments identified during the quarter with comparison to the same quarter in the previous two years as well as a breakdown of overpayments for the full financial year and comparison to the previous two years.
- 3.5 Members will note that there has been an increase in the value of overpayments. This can be attributed to an increasing number of data matching initiatives, such as Real Time Information, which provides HMRC tax data for working people in receipt of HB. This has identified a number of people who fail to report increases in their earnings. As a consequence the increase demonstrates that Medway is taking a positive approach to tackling the issue rather than suggesting that more fraud is getting into the system from the start.
- 3.6 There were no investigations linked to employee or contractor fraud during quarter four, or the financial year as a whole.
- 3.7 While there were no other external fraud investigations during quarter four, it was reported to members in earlier quarters that there had been one attempted mandate fraud and one attempted cheque fraud. Both of these were identified before any transactions took place and fraud was therefore prevented by effective due diligence and did not require investigation. These are the only two reported incidents for 2015-16.

4. National Fraud Initiative (NFI)

- 4.1 The main NFI is a biennial exercise for all councils in England and Wales. This matches HB data against a number of different data sets, including: - Home Office immigration and UK visas, student loans, payroll, pensions, Amberhill fraudulent identities and deceased person's data, as well as matching other council data such as creditors to identify duplicate payments.
- 4.2 The 2011-12 exercise identified 2,927 matches and 1,298 have been processed with seven cases of fraud and 50 errors identified. These have produced Medway/DWP overpayments totalling £180,059.
- 4.3 The next exercise will require data submissions in October 2016, with results likely to be issued in January 2017. Data matches for HB will still be issued to Medway but responsibility for any resulting investigation will lay with the DWP.
- 4.4 The Council Tax exercise matches SPD data against the Electoral Register to identify people who may not be entitled to their discount. This originally ran in alternate years to the general exercise but the Cabinet Office is now running the match on an annual basis.

- 4.5 As a consequence, a new release of data was received in December 2015, providing 1,238 potential discrepancies (compared to 1,899 in the previous exercise). 1,133 of these matches have been processed with 132 discrepancies confirmed and Council tax of £29,481.57 identified as being owed.
- 4.6 The exercise also identifies households with an SPD that have children who are reaching 18. This identified 140 matches, all of which have been processed, and resulted in confirmed discrepancies in 121 cases with Council tax of £296.57 identified as being owed. The value is low as the majority of those identified were found to be students and the liable party therefore qualified for a 25% student discount instead of the SPD, effectively meaning no change to their liability.

5. Single Fraud Investigation Service (SFIS)

- 5.1 Members have previously been advised that the responsibility for the investigation of benefit fraud would be transferring to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP). On 12 February 2016, all active investigations and associated paperwork were formally handed to SFIS as part of the transfer process and the authority ceased all investigations relating to Housing Benefit.
- 5.2 Since that date, allegations of fraud relating to the Council Tax Reduction Scheme and/or Council Tax Discounts and Exemptions will be investigated by the new Audit & Counter Fraud Shared Service.
- 5.3 We are exploring avenues for collaborative working with the local SFIS officers to reduce the risk of duplicating investigations and also trying to identify the best form of liaison following the last Audit Committee where members extended an invitation for a representative of SFIS to attend a committee meeting to discuss common trends.

6. Risk management

- 6.1 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.

7. Financial implications

- 7.1 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.

8. Legal implications

- 8.1 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 to the end of February 2016

required Local Authorities to maintain arrangements to prevent fraud and error in the welfare benefits that they administer.

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

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Appendices

Appendix A – External Investigations 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.