

---

## INTERNAL AUDIT ANNUAL REPORT - ANNUAL FRAUD REPORT FOR 2013-14

To: **Governance and Audit Committee - 25<sup>th</sup> June 2014**

By: **Sue McGonigal, Chief Executive (s.151 Officer);  
Paul Cook, Interim Director of Corporate Resources (Deputy  
s.151 Officer)**

Subject: **ANNUAL FRAUD REPORT FOR 2013-14**

Classification: **Unrestricted**

Ward: **Thanet Wide**

---

**Summary: This report provides the summary of the impact of the  
counter fraud work for the year to 31<sup>st</sup> March 2014.**

**For Information**

---

### **1.0 Introduction**

- 1.1 In 2013-14 Thanet District Council spent around £20.8 million (net) providing services to the 135,700 people that reside within the district. These services range from the payment of housing and council tax benefit to collection of household waste and the control of development. To provide these services, the Council employs 708 staff who are responsible for conducting significant number of administrative, operational and financial processes on behalf of the Council.
- 1.2 In the Annual Fraud Indicator 2013 the National Fraud Authority (NFA) estimates that fraud costs the UK £52bn a year. The NFA also estimates that within the public sector, £20.6bn is lost annually due to fraud, with £2.1bn of this affecting local authorities. The major areas of fraud within local government are cited as;
- Housing Tenancy fraud (estimated £845 million)
  - Procurement Fraud (£876 million)
  - Payroll Fraud (£154 million)
  - Council Tax Fraud (£133 million).
- 1.3 The NFA also estimates that Benefit Fraud (fraud and error for benefits administered by the Department for Work and Pensions and local authorities) costs the UK economy £1.2bn annually, with Housing Benefit fraud remaining the largest area of fraud overpayment within the benefits system at £350 million.
- 1.4 Thanet District Council is opposed to all forms of fraud and corruption and recognises that such acts can undermine the standards of public service, which it promotes, and have a detrimental effect on the ability of the Council to meet its own objectives. This, in turn, can impact on the service provided to the residents of Thanet.
- 1.5 This report is intended to provide details of the Council's activity in preventing, detecting and investigating fraud and corruption during the 2013-14 financial year. The report includes action taken in respect of both corporate fraud (acts of fraud within and against the Council) and benefit related fraud.

## **2.0 Prevention and Detection of Fraud and Corruption**

A key element of the Council's arrangements to prevent and detect fraud and corruption activity is the development and maintenance of an anti-fraud Culture within the Council, through the following:-

### **2.1 Anti-Fraud & Corruption Strategy**

The anti-fraud and corruption strategy is a public document setting out the Council's stance on fraud and corruption and providing an outline of its arrangements to prevent, detect and investigate instances. The strategy underpins the Council's counter fraud arrangements and supports other corporate documents, which together form the framework. During 2013-14 the Council formed a working group of officers to review the arrangements to ensure the strategy continues to reflect best practice and is in accordance with current legislation.

### **2.2 Whistleblowing Policy**

The Whistleblowing policy is intended to be used by Council employees, members and contractors, consultants or partners working with the Council to support the disclosure of concerns and suspicions, which can not be raised through the channels outlined in the Anti-Fraud & Corruption Strategy. During the 2013-14 year the policy was also reviewed for relevance. There were no referrals made using the Whistleblowing Policy.

### **2.3 Housing & Council Tax Benefit Anti-Fraud Policy**

The Housing & Council Tax Benefit Anti-Fraud Policy provides an additional element of the Council's counter fraud culture, it is a public document setting out the Council's stance on fraud specifically related to benefits. The document was updated December 2012 to reflect changes introduced by the Welfare Reform Act including the Council Tax Reduction Scheme.

### **2.4 Internal Control Arrangements**

#### **2.4.1 Induction**

The Council has arrangements in place for inducting new members of staff. This includes, amongst other things, the Council's Code of Conduct and the suite of policies that form the Anti-Fraud, Corruption and Bribery Framework.

#### **2.4.2 Training**

Specific training and feedback was provided to the Benefit and Council Tax processing staff on referrals made to the investigators. Investigation Officers have commenced working more closely with Housing Officers and Internal Audit, to provide an effective way of sharing the skills, knowledge and experience of conducting investigations.

#### **2.4.3 Website**

The Council's policies are promoted via the Website so that all stakeholders may be clear on what to do if they wish to report their concerns.

#### **2.4.4 Publicity of Successful Prosecutions**

The Council is committed to publicising where it has been able to successfully pursue proven cases of fraud. During the 2013-14 year 5 press releases relating to the Council's detection of fraudulent activity. The publicity provides assurance that the Council does and will deal with such cases effectively, acting both as a deterrent to those contemplating fraudulent activity, and encouraging those with information to come forward and report this to the Council.

#### **2.4.5 National Fraud Initiative**

The Council takes part in the bi-annual National Fraud Initiative (NFI) data matching exercise, comparing computer records held by the Council against other data bases

held by other bodies. This results in matches being found requiring further investigation to determine whether it is an error or a potential fraud. In October 2012 the Council submitted data for the 2012-13 NFI exercise, and the matches from the exercise were received in January 2013. A total of 3,505 matches were received across 59 reports considering, Payroll, Creditors' history and standing data, Housing (current tenants and right to buy), Taxi Drivers, Personal Alcohol Licenses, and Resident Parking Permits Insurance claim data is submitted directly from our Insurance provider, currently this is Travellers. Current overall summary:

- Cleared 893 cases, this is where the match status has been set to either "closed already known" or closed no issue".
- Currently investigating 47 cases
- Highlighted fraud and errors to a total of 41 cases with a value of £38,799.05
- Of the frauds and errors we are recovering 24 cases with a total of £20,811.91

The Single Persons Discount matching exercise was moved slightly this year to coincide with the change in registration arrangements that the Electoral Commission have imposed in preparation for the move to individual registration. The extract of the council tax and the electoral register data were taken on the 17<sup>th</sup> February 2014, the work will commence in July and the results finalised by 30<sup>th</sup> September 2014.

#### 2.4.6 Housing Tenancy Fraud

Internal Audit was commissioned to undertake a review of Tackling Tenancy Fraud arrangements working with the four East Kent councils and East Kent Housing (EKH). As part of this review, the incorrect phone number for reporting potential tenancy fraud was corrected on the EKH webpage. Shortly following this, a report was made by a member of the public. The matter was fully investigated, and unfortunately not proven; despite much circumstantial evidence. As a consequence the case has not been fully closed in the event that circumstances regarding the documentary evidence may change in the future. The changes in legislation and new powers available will be fully explained in the final report by Internal Audit due to be finalised and reported to this committee in the near future. The Council will continue to build on this early work in 2014-15.

### 3.0 Investigating Fraud

Whilst the Council has effective internal control arrangements in place within systems and processes to prevent and detect fraudulent activity, the Council recognises that fraud does occur and is often detected as a result of the alertness of employees, members and the general public and other stakeholders.

#### 3.1 Corporate Fraud & Irregularity Referrals

To ensure the effective use of the skills and resources available to it the Council intends to utilise officers from HR, Internal Audit and Investigations based on the nature of the allegation and the investigatory skills required. During 2013-14 no referrals were made to the Council;

#### 3.2 Benefit Fraud Referrals

The investigation team is currently made up of two Investigation Officers whose primary focus is the detection and investigation of benefit fraud. The team works closely with other agencies to progress investigations. Partnership working is actively undertaken with these agencies to ensure that the best outcome is received through the pooling of resources.

The investigation team is reliant on a number of sources for referrals of potential benefit fraud cases. During 2013-14 718 referrals were made to the team, as set out in the table below.

Referral type	No. of Referrals received	No. of referrals Accepted for Formal Investigation
<b>Housing Benefit Matching Service</b>	43	31
<b>Fraud Hotline</b>	112	24
<b>Benefits Staff</b>	134	88
<b>Council staff</b>	182	129
<b>DWP</b>	53	51
<b>Other</b>	194	90
	718	425

During 2013-14 425 formal investigations were carried out, a total of 64 sanctions were achieved as follows

Sanction Achieved	Number
Formal Caution	42
Administrative Penalty	11
Successful Prosecution	11
	64

Additionally, through this work, overpayments of, £283,721 in Housing Benefit and £55,755 in Council Tax Benefit were identified during the year.

### 3.3 Other Investigation Activity

Internal Audit conducted an investigation, which commenced in 2012-13 was followed up and reported to this Committee in 2013-14.

## 4.0 Future Developments in the Fraud Arrangements of the Council

### 4.1 Fighting Fraud Locally

In December 2011 the NFA launched *Fighting Fraud Together*, a national fraud strategy encompassing public and private sector, not for profit organisations and law enforcement bodies. In April 2012 the NFA launched *Fighting Fraud Locally* as the first sector-led local government counter-fraud strategy. *Fighting Fraud Locally* sets out a three tiered approach for local authorities to follow- to Acknowledge, Prevent and Pursue fraud.

The Council commission Internal Audit to consider the existing arrangements against *Fighting Fraud Locally* to identify opportunities to further develop the framework. The officer working group has received the action plan that resulted from this review, and Internal Audit have been asked to attend the working group as required.

### 4.2 Assessing Fraud Risk

The Council will continue to closely monitor the development of the Single Fraud Investigation Service (SFIS) and the wider Welfare Reform agenda. This will directly impact dedicated Housing Benefit investigation staff, although pilot sites have been established by the DWP, the latest date indicated for this initiative to be fully implemented nationally is March 2016. Individual Councils have been given their transfer date between October 2014 and March 2016. Thanet's resource will transfer in December 2015. This will present a risk of a loss of skills, and the lost opportunity to share expert knowledge and experience across the Council departments.

Internal Audit will continue to assess fraud risk to which the Council may be exposed annually as part of the development of the annual internal audit plan. In 2014-15 there is a specific Fraud Resilience review scheduled for quarter 3.

## **5.0 Summary**

- 5.1 The Council continues to react positively to review, update and publicise its counter fraud arrangements and encourage referrals to be made where fraud or corruption is suspected.
- 5.2 In the forthcoming year it is considered that the risk of the Council being subject to fraudulent activity is not likely to reduce. To ensure that the Council maintains its counter fraud culture, activities will include to;
- Ensure that the Council has the right policies and procedures in place to support counter fraud work and that these are widely publicised, promoted and enforced.
  - Provide an ongoing awareness of fraud and corruption issues to staff and members, particularly by evaluating an e-learning module.
  - Work with stakeholders across the Council in acknowledging their fraud risk.
  - Undertake reactive investigations where fraud is reported and ensure that the maximum possible is recovered for the Council.
  - Ensure that the lessons learned from investigations, and the skills and knowledge required to carry them out effectively, are shared across the relevant parts of the Council. Recognise the loss in skills when investigation staff transfer to SFIS, and make provision for resources to investigate corporate fraud, tenancy fraud, CTRS and SPD fraudulent claims.
  - Ensure that proven cases are publicised.
  - Maintain an overview of the changing fraud landscape to ensure that the Council continues to maintain an effective, but proportionate, response to fraud risk.

## **4.0 Options**

- 4.1 That Members consider and note the annual fraud report for 2013-14.
- 4.2 That Members consider registering their concerns with Cabinet in respect of any areas of the Council's corporate governance, control framework or risk management arrangements in respect of which they have on-going concerns after considering the counter fraud work for the year 2013-14.

## **5.0 Corporate Implications**

### **5.1 Financial Implications**

- 5.1.1 There are no financial implications arising directly from this report. Adequate and effective counter-fraud arrangements provide the Council with assurance on the proper, economic, efficient and effective use of Council resources in the delivery of services, as well as helping to identify fraud and error that could have an adverse affect on the financial statements of the Council.

### **5.2 Legal Implications**

- 5.2.1 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them. s.151 of the Local Government Act 1972 requires the Council to "make arrangements for the proper administration of their financial affairs". Funding received via central government requires local authorities to maintain arrangements to prevent fraud and error in the welfare benefits that they administer.

### 5.3 Corporate Implications

5.3.1 Under the Local Code of Corporate Governance accepted by Cabinet on 8<sup>th</sup> December 2009, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal controls and counter fraud work.

### 6.0 Recommendations

6.1 That the report be received by Members.

Contact Officers:	Christine Parker, Head of the Audit Partnership, ext. 7190;
	Simon Webb, Deputy Head of Audit, ext 7189
	Sue McGonigal, Chief Executive Ext. 7790

### **Annex List**

None	N/A
------	-----

### **Background Papers**

<b>Title</b>	<b>Where to Access Document</b>
None	The data required to complete this report has been supplied by the various Council teams responsible

### **Corporate Consultation Undertaken**

Finance	N/A
Legal	N/A