



## Report of the Chief Auditor

Audit Committee – 11 September 2018

### Internal Audit Section – Fraud Function Annual Report for 2017/2018

<b>Purpose:</b>	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2017/18.
<b>Policy Framework:</b>	None.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	It is recommended that Committee review and discuss the work of the Fraud Function of Internal Audit in 2017/18 and its progress against the Fraud Function Internal Audit Annual Plan for 2017/18.
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#### 1. INTRODUCTION

- 1.1 A Fraud Function consisting of 3 officers was established within the Internal Audit Section on 1 June 2015 for an initial 2-year trial period. Funding to make the Function permanent was provided in December 2016.
- 1.2 This report provides a 12-month summary of the activities of the Fraud Function for 2017/18 and reviews achievements compared to target outcomes contained in the Fraud Function Anti-Fraud Plan for 2017/18.
- 1.3 The Fraud Function Anti-Fraud Plan for 2018/19 was presented to the Audit Committee on 10<sup>th</sup> April 2018. This advised that due to significant ongoing corporate pressures in respect of diminishing financial resources, the Fraud Function Manager post was deleted from April 2018 following an agreement to allow the post holder to leave the Council via early redundancy.

## 2. OVERVIEW OF ACTIVITIES

- 2.1 Activities broadly fall into two main categories:
- Activities and cases solely investigated by the team including: council tax reduction, direct payments for social care, social housing tenancy fraud, employee issues and special investigations, and fraud awareness.
  - Suspicious Council Tax Reduction claims and associated tenancy fraud considered as part of the Joint Working with the Department for Work and Pensions (DWP).
- 2.2 The team have also continued to manage the National Fraud Initiative 2016 (NFI16) in 17/18.
- 2.3 Appendix 1 provides an overview of the activities of the team for 2017/18 excluding NFI16 which is shown at 4.4 below.
- 2.4 Appendix 2 provides further data for 2017/2018 in respect of council employees. (NB: Figures in Appendix 1 are inclusive of those shown in Appendix 2)

## 3. THE VALUE OF THE FUNCTION

- 3.1 The team contributes to the Council's corporate vision and priorities by investigating allegations of fraud and corruption against the Authority, both from within the organisation and from external third parties.
- 3.2 The value of this function to the Authority can be 'measured' via the following headings:
- 3.2.1 **Deterrent value:**  
The deterrent value of having a function is invaluable. It offers a confidential mechanism to report concerns, showing that those concerns are acted upon, taking appropriate sanctions such as disciplinary action or criminal prosecutions, and reporting outcomes as appropriate.
- 3.2.2 **Strengthening procedures & workforce relationships:**  
Internal investigations may not yield immediately quantifiable financial outcomes. However, they can and have had a positive effect as a consequence of:
- Changing policies and procedures that reduce the potential for subsequent loss by fraud or error by enhancing robustness and delivering efficiencies.
  - Stopping inappropriate practices can increase morale and enhance relationships between colleagues and managers and service users thereby positively effecting performance.
- 3.2.3 **Outcomes with financial implications:**  
Activities may identify money, or assets that have been claimed or misappropriated via fraud or error, which are targeted for recovery. For example:
- Overpayments of Housing Benefit, Council Tax Benefit, Council Tax Reduction.
  - Council properties returned to stock.
  - Money resulting from action taken under the Proceeds of Crime Act 2002.

Activities may also result in additional liability being created. For example via the removal of Council Tax discounts and exemptions.

## **4 KEY ACTIVITIES 2017/18**

### **4.1 Review of Direct Payment Strategy/Forms**

4.1.1 Recent investigations into suspicious claims for Direct Payments for social care were in part responsible for the commencement of a review of relevant procedures, forms and documentation by all relevant internal stakeholders including: Social Services, Social Care Income and Finance Team, Legal Services and this team.

4.1.2 The aim of the review was to improve all documentation and procedures and avoid ambiguity by:

- Streamlining the content and using clear / plain language,
- Ensuring that applications capture all relevant information, and,
- Clearly expressing the roles, responsibilities and obligations of service users and their representatives,
- Ensuring that declarations are criminally robust, i.e. that they do not preclude prosecutions being considered in appropriate instances,
- Ensuring that records made by staff are accurate and complete,
- Ensuring that services users and the Social Care Income and Finance Team are fully aware of the current Direct Payment package and are informed of the outcome of care reviews as a matter of course.

4.1.3 All of the review aims were met and have been implemented.

### **4.2 Joint work with DWP's Fraud and Error Service**

4.2.1 As previously reported in the Annual Report for 2016/17, following the introduction of the DWP's Single Fraud investigation Service (SFIS) in June 2015, the DWP became solely responsible for investigating all welfare benefit frauds, including Housing Benefit and Council Tax Benefit.

4.2.2 However, due to concerns raised mainly by Local Authorities(LA's) regarding potential loss of local knowledge, reduced information sharing, and Council tax Reduction (CTR) offences either not being investigated, or LA's undertaking a separate investigation alongside SFIS investigations, the Government introduced a joint working pilot.

4.2.3 The pilot ran from November 2015–May 2017. Across the UK seven LA's including Swansea jointly investigated fraud allegations concerning both welfare benefit frauds and CTR. Swansea have been commended on a number of occasions for leading this pilot and have frequently been involved in shaping and leading the pilot.

4.2.4 The aim of the pilot was to bring together the combined expertise of DWP's SFIS and LA CTR fraud officers via:

- Sharing of information to support each organisation's fraud detection work.
- Joint investigations with a view to a single outcome / prosecution.

4.2.5 In December 2016, it was agreed to extend the pilot to include 'linked' Social Housing Tenancy fraud.

4.2.6 On completion of the pilot, the Government concluded that joint working “Protects the integrity of the Welfare Benefit, Tax Credits, and Local Government systems”.

4.2.7 As a consequence a National roll-out is due to commence October 2018.

4.2.8 Data outcomes for this work are shown at Appendix 1. Although there was a small decrease in the number of cases investigated the value of overpayments realised increased significantly by 78% from £162,950.10 to £290,685.17. In this period there were 2 successful prosecutions and 2 Administrative Penalties in lieu of prosecution accepted. (NB: Due to the length of investigations sanction outcomes often occur in subsequent years)

### 4.3 **National Fraud Initiative 2016**

4.3.1 NFI is a bi-annual data matching exercise delivered by the Cabinet Office.

4.3.2 Data matching involves comparing computer records held by one organisation against computer records held by the same or another organisation to see how far they match.

4.3.3 Records that are subject to data matching include:

- Blue Badge
- Creditors
- Housing waiting lists
- Immigration
- Market traders
- Payroll & Pensions
- Licensing
- Personal budgets for social care
- VAT overpaid

4.3.4 Matches are categorised as High Priority, Medium Priority, and by Address.

4.3.5 Matched records are simply that. They could be legitimate matches where there is nothing untoward, or they could highlight inconsistencies that may require further investigation.

4.3.6 No assumption can be made as to whether there is fraud or error until an examination / investigation has been carried out.

4.3.7 For Swansea, the exercise has been coordinated by the Chief Internal Auditor and the Fraud Function.

4.3.8 Swansea received 123 Reports containing 11,236 matches, with 2,197 classed as ‘Recommended’ matches.

4.3.9 Due to the volume of matches the Cabinet Office do not expect all matches to be examined.

4.3.10 In order to target limited resources in the most efficient way as possible, matches were allocated / examined via sampling and filtering, concentrating on High Quality Reports, and Recommended Matches.

- 4.3.11 To date outcomes show:
- 2,036 matches examined across 108 Reports.
  - 1,660 matches with no issues / information already known.
  - 293 matches where fraud / error were identified.
  - 83 ongoing matches.
  - £52,005.73 in confirmed overpayments / estimated forward savings.

#### **4.4 Fraud Awareness**

- 4.4.1 The Fraud Function produced a corporate staff induction guide to Fraud Awareness to replace the third party online package which was no longer fit for purpose.
- 4.4.2 A Staffnet Bulletin was also produced to provide staff with information and advice on tackling fraud in the workplace and how to minimise the risk of losses resulting from fraud and error. The Bulletin was also highlighted in the Chief Executive's Blog of 09.06.17.
- 4.4.3 A Presentation titled 'Tackling Fraud Together' was delivered to the Audit Committee. The aims were:
- To clarify the Council's obligations to tackle fraud.
  - To highlight the principles of good fraud risk management.
  - To underline the Council's arrangements for tackling fraud
- 4.4.4 Following a dialogue between the Unions and Human Resources clarification was provided regarding the potential for criminal action in respect of school staff. Suggestions from the Unions were taken into account and processes agreed and implemented.
- 4.4.5 Briefing notes were issued to schools titled 'Tackling Counterfeit Cheque Fraud via Internet Banking' and 'Preventing Credit Card Fraud'.

#### **4.5 Inter-Agency work and Data Exchange**

- 4.5.1 During 2017/18 the team has continued to develop its role in inter-agency working and data exchange.
- 4.5.2 Representatives have attended regular meetings and shaped the development of the Local Authority Welsh Anti-Fraud Officers group.
- 4.5.3 Staff have also attended regular inter agency meetings with other government agencies tackling organised crime.
- 4.5.4 In year, the Function has handled 447 requests for information from other government agencies. A 39% increase on the previous year reflecting that the identity and role of the team is becoming established and leading to effective data sharing.

## **4.6 Special Investigations**

- 4.6.1 Two significant school based investigations were undertaken in 2017/18 which involved a review of the administrative processes and adherence to standard procedures. One investigation resulted in a number of recommendations being made. The results of a subsequent follow up visit at the school showed that significant progress had been made in addressing the issues that had been identified, with 19 of the 22 recommendations being fully implemented. The implementation of the outstanding 3 recommendations will be checked as part of the next full audit due in 2019/20. The second investigation is currently ongoing.

## **4.7 Review of the Fraud Function Plan for 2017/18**

- 4.7.1 Of the 9 planned Fraud Function activities 6 were fully achieved and 3 partly achieved. Appendix 3 provides commentary against these activities.
- 4.7.2 For those activities partly achieved the teams limited resources and the requirements of reactive work, in particular employee investigations, restricted the opportunities for proactive work to be fully developed against the plan. Albeit the number of employee investigations marginally decreased.

## **5. Equality and Engagement Implications**

- 5.1 There are no equality and engagement implications associated with this report.

## **6. Financial Implications**

- 6.1 There are no financial implications associated with this report.

## **7. Legal Implications**

- 7.1 The Accounts and Audit (Wales) Regulations 2014 require the maintenance of an adequate and effective system of internal audit of the Council's accounting records and control systems. This is essential to the prevention and detection of fraud and corruption and is a key element of the Chief Finance Officer's statutory duties as contained in section 151 of the Local Government Act 1972.

**Background Papers:** None

### **Appendices:**

- Appendix 1 - Overview of activities for 2017/18 excluding NF116.  
Appendix 2 - Data for 17/18 in respect of council employees.  
Appendix 3 - Review of the Fraud Function Plan for 2017/18.

## Appendix 1 - Overview of activities for 2017/18(excluding NFI 2016)

### Overview of cases:

Type	Joint Working with DWP	FF only	Total
Brought forward from 2016/17	28 (11)	37 (24)	65 (35)
New cases in 2017/18	29 (55)	169 (188)	198 (243)
<b>Total</b>	<b>57 (66)</b>	<b>206 (212)</b>	<b>263 (278)</b>

(Figure in bracket/italics refer to 16/17)

### Status of cases:

Type	Joint Working with DWP	FF only	Total
Cases closed	27 (35)	170 (178)	197 (213)
Cases to be considered	0 (0)	12 (11)	12 (11)
Cases under investigation	30 (31)	24 (23)	54 (54)
<b>Total</b>	<b>57 (66)</b>	<b>206 (212)</b>	<b>263 (278)</b>

(Figure in bracket/italics refer to 16/17)

### Overpayments created:

Joint Working with DWP cases			
Created via FF		Created via DWP	
CTR	Other	HB & CTB	DWP
<b>£24,946.87</b> <i>(£12,192.88)</i>	<b>£1,110.30</b> <i>(£1,791.75)</i>	<b>£141,316.75</b> <i>(£80,355.67)</i>	<b>£123,311.25</b> <i>(£68,609.80)</i>
<b>£26,057.17</b> <i>(£13,984.63)</i>		<b>£264,628.00</b> <i>(£148,965.47)</i>	
<b>£290,685.17</b> <i>(£162,950.10)</i>			

(Figure in bracket/italics refer to 16/17)

FF only cases
CTR & Other
<b>£7,184.13</b> <i>(£21,649.53)</i>

Total of all overpayments
<b>£297,869.30</b> <i>(£184,599.63)</i>

## Appendix 2 - Data for 2017/2018 in respect of council employees

Type	Cases	Employees
Brought forward from 2016/17	9 (4)	10 (15)
New cases in 2017/18	15 (22)	25 (35)
<b>Total</b>	<b>24 (26)</b>	<b>35 (50)</b>

(Figure in bracket/italics refer to 16/17)

Reason	Cases	Employees
Abuse Of Position	2	2
Expenses	1	1
Flexi Abuse	5	6
Not following procedures	2	2
Theft	6	9
Working whilst on sick leave	3	3
Other	5	12
<b>Total</b>	<b>24</b>	<b>35</b>

Employee Outcomes	
Type	Number
Investigation not appropriate	2
Investigated but no further action appropriate	5
Other Action Taken	5
Resigned before disciplinary hearing	5
Ongoing investigation	18
<b>Total</b>	<b>35</b>

### Appendix 3 - Review of the Fraud Function Plan for 2017/18

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>1. Continue to consider new areas of activity:</p> <ul style="list-style-type: none"> <li>• Planning,</li> <li>• Preparation,</li> <li>• Procedures.</li> </ul>	<p>To continue to explore new areas with a view to undertaking proactive activity:</p> <ul style="list-style-type: none"> <li>• Business Rates.</li> <li>• Grants.</li> <li>• Personal budgets for social care.</li> <li>• Procurement.</li> </ul>	<p>'Fact finding' in order to establish an understanding of relevant legislation and best practices.</p> <p>Devise and implement proactive 'pilot' exercises to:</p> <ul style="list-style-type: none"> <li>• Assist in ensuring that funds are used for the intended purposes.</li> <li>• Maximise income from Business Rates</li> <li>• Identify fraud and error.</li> <li>• Seek to recover losses.</li> <li>• Take criminal action in appropriate cases.</li> </ul>	<p>Partly achieved.</p> <p>Limited resources and the requirements of reactive work have restricted the opportunities for proactive work to be undertaken in all areas.</p> <p>However, individual investigations into Personal Budgets for Social Care and procurement have been undertaken.</p> <p>As a consequence, knowledge and expertise has increased in these areas, and recommendations regarding procedures have been made as in order to enhance the robustness of processes and monitoring.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
2. Tackle social housing tenancy fraud	Continue to work in partnership the Housing Department and Legal Section to combat tenancy fraud: from unlawful subletting to bogus succession claims.	<p>Raise awareness of the problem of social housing fraud and the damage that it does.</p> <p>Prevent the unlawful succession to social housing properties by people that do not have a right to succeed the tenancy</p> <p>Reduce the number of properties being unlawfully sub-let.</p> <p>Recover properties where tenancy fraud has been identified.</p> <p>Undertake criminal prosecutions &amp; utilise Unlawful Profit Orders to recover any profit made by offenders, in accordance with the Prevention of Social Housing Fraud Act 2013 and/or the Fraud Act 2006.</p>	<p>Fully achieved.</p> <p>Single points of contact previously established with the Housing Department and Legal Section continue to be utilised and enhanced.</p> <p>Guidelines / procedures previously devised in conjunction with Housing &amp; Legal officers as regards necessary actions to expedite instances where Tenancy Fraud is identified have been satisfactorily 'tested'.</p> <p>Council property has been returned to stock as a direct consequence of fraud investigations.</p>
3. Tackle Council Tax fraud	Utilise internal and external Data Matching products to identify potential discrepancies in Single Person Discounts and other Council Tax discounts, disregards and exemptions.	<p>Recover single person discounts 'incorrectly' claimed.</p> <p>Recover other disregards and discounts 'incorrectly' claimed.</p>	<p>Fully achieved.</p> <p>Incorrectly claimed discounts and exemptions have been identified via individual investigations and via internal &amp; external data matching.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
4. Tackle Personal Budgets for Social Care (Direct Payments)	Continue to review and develop processes to aid the identification and investigation of any fraud.	<p>Officers to attain a practicable appreciation of relevant legislation and related processes applied to the application and monitoring of Direct Payments.</p> <p>To consider 'suspicious' cases with a view to determining appropriate action, including:</p> <ul style="list-style-type: none"> <li>• Seeking to ensure procedures and documents are adequately robust.</li> <li>• Identifying potential overpayments.</li> <li>• Instigating criminal proceedings where appropriate.</li> </ul>	<p>Fully achieved.</p> <p>Officers have dealt with several Direct Payments cases and attained relevant knowledge in this area.</p> <p>Officers have participated in a review of the direct Payments Strategy Processes.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
5. Tackle Council Tax Reduction (CTR) fraud	<p>The team will continue to investigate CTR fraud where no other welfare benefit is in payment.</p> <p>To continue to participate in the joint working pilot with SFIS.</p>	<p>Sharing information and expertise:</p> <ul style="list-style-type: none"> <li>• To ensure that the totality of welfare benefit and CTRS and Tenancy frauds tackled in the most efficient and effective manner.</li> <li>• To identify overpayments and excess reductions.</li> <li>• To take sanction action in appropriate cases. Administrative Penalties and prosecutions.</li> </ul>	<p>Fully achieved.</p> <p>Although the joint working pilot ended in May 2017, the team remains committed to tackling CTR fraud by adopting joint working with SFIS as a 'business as usual' function prior to the national roll-out October 18.</p>
6. Tackle Procurement fraud	<p>Continue to develop proactive work in this area.</p>	<p>Establish a formal relationship between the team and the Procurement Team.</p> <p>Attain a practicable appreciation of relevant legislation and related processes.</p> <p>Determine whether any proactive work can be undertaken with a view to undertaking sample testing.</p>	<p>Partly achieved.</p> <p>Relationships have been established via fact finding linked to potential cases.</p> <p>Limited resources and the requirements of reactive work have restricted the opportunities for proactive work to be undertaken in this area.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
7. National Fraud Initiative (NFI)	Continue to participate in and manage and co-ordinate the National Fraud Initiative.	<p><u>Benefit related matches:</u> As appropriate, liaise with the appropriate Benefits officer and SFIS to ensure that all relevant NFI Reports are examined/considered so that:</p> <ul style="list-style-type: none"> <li>• Fraud, error, overpayments and excess reductions are identified.</li> <li>• To take appropriate against offenders.</li> </ul> <p><u>Non-Benefit related matches:</u></p> <ul style="list-style-type: none"> <li>• The team will mainly deal with the following matches:</li> <li>• Housing Tenants to Housing Tenants,</li> <li>• Housing Tenants to Council tax Reduction,</li> <li>• Housing Benefits to Council Tax Reduction,</li> <li>• Council Tax Reduction to Housing Benefits,</li> <li>• Housing Tenants, Payroll, Pensions, Taxi Drivers.</li> <li>• Officers based in Accounts Receivable, Audit, Customer Services and Pensions will deal with 'other' matches as necessary.</li> </ul>	<p>Fully achieved.</p> <p>In conjunction with the Chief Auditor, the team coordinated and monitored the allocation and examination of all relevant reports &amp; matches.</p> <p>The examination of all relevant reports / matches is nearing completion (see point 4.3).</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>8. Tackle other internal and external fraud, examples includes:</p> <ul style="list-style-type: none"> <li>• Abuse of Position</li> <li>• Blue badge</li> <li>• Flexi time</li> <li>• Income collection / banking</li> <li>• Payroll</li> <li>• Pensions</li> <li>• Travel and subsistence</li> </ul>	<p>During 2017/18, the team will continue to investigate various anomalies and referrals.</p> <p>The team will continue to work with internal departments and external organisations in order to undertake risk assessments, and gather intelligence and evidence to point towards or away from fraud and error.</p> <p>Subject to available resources, the team will consider and investigate any other frauds if it is in the best interests of the Council and the general public it serves.</p>	<ul style="list-style-type: none"> <li>• To retain public confidence.</li> <li>• To maintain the Council's good reputation.</li> <li>• To identify fraud, error and over payments.</li> <li>• To instigate criminal proceedings as appropriate.</li> <li>• To recover losses.</li> </ul>	<p>Partly achieved.</p> <p>The team considers all allegations made.</p> <p>However, as a consequence of limited resources and the requirements of other reactive work which may attract a higher priority, in some instances the team may not be in a position to take an allegation forward.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
9. Raising Awareness	<p>Continue to raise awareness of the role of team both inside and outside the Council.</p> <p>The aim is to maintain reputation and to encourage the reporting of potential fraud in the belief that action will be taken.</p>	<p><u>Staff</u></p> <ul style="list-style-type: none"> <li>• New – A guide to Corporate Fraud for inclusion in HR Induction Training has been devised.</li> <li>• Existing – Continue to develop and deliver training as and when required.</li> </ul> <p><u>Members</u></p> <p>Continue to deliver / presentations reports to the Audit Committee and other members as necessary.</p> <p><u>Contractors</u></p> <p>Develop a guide that highlights their role in combatting fraud.</p> <p><u>Public</u></p> <p>Continue to publicise activities, successes, and prosecutions.</p> <p><u>External Partners</u></p> <p>To continue to develop external partner relationships.</p>	<p><u>Staff</u> -Target achieved.</p> <ul style="list-style-type: none"> <li>• New - A bespoke guide is included in HR Induction Training.</li> <li>• Existing - A bulletin was issued to all staff.</li> <li>• Guidance was provided to the Unions regarding school staff.</li> </ul> <p><u>Members</u> - Target achieved. Reports and updates have been delivered regularly to the Audit Committee.</p> <p><u>Contractors</u> - Target partly achieved. Other priorities have meant the guide has not been fully developed.</p> <p><u>Public</u> - Target achieved Publicity regarding FF's activities has appeared in the South Wales Evening Post and other media outlets.</p> <p><u>External Partners</u> – Target achieved.</p> <p>Relationships extended and embedded.</p>