



Report of the Chief Auditor

Audit Committee – 8 October 2019

Corporate Fraud Annual Report 2018/19

Purpose:	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2018/19.
Policy Framework:	None.
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that Committee review and discuss the work of the Fraud Function of Internal Audit in 2018/19 and its progress against the Fraud Function Anti-Fraud Plan for 2018/19.
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1. INTRODUCTION

- 1.1 This report provides a 12-month summary of the activities of the Fraud Function for 2018/19 and reviews achievements compared to target outcomes contained in the Fraud Function Anti-Fraud Plan for 2018/19.
- 1.2 This is the first Fraud Function report to come to committee since the reduction of the team from 3 to 2 officers following the deletion of the Manager post in March 2018.

2. OVERVIEW OF ACTIVITIES

- 2.1 Activities broadly fall into two main categories:
 - Allegations 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 now commenced the management of the National Fraud Initiative 2018 (NFI18) published 2019.
- 2.3 Appendix 1 provides an overview of the activities of the function for 2018/19.
- 2.4 Appendix 2 provides further data for 2018/2019 in respect of investigations undertaken by the function in relation to council employees. (NB: Figures in Appendix 1 are inclusive of those shown in Appendix 2)

3. THE VALUE OF THE FUNCTION

- 3.1 The fraud function 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 fraud 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 2018/19

4.1 Joint work with DWP's Counter Fraud, Compliance & Debt Service formerly the Fraud and Error Service

- 4.1.1 As previously reported following the introduction of the DWP's Single Fraud investigation Service (SFIS) in June 2015 and the inception of the Internal Audit Fraud Function, the DWP became solely responsible for investigating all

welfare benefit frauds, including Housing Benefit and the former Council Tax Benefit.

- 4.1.2 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. Swansea Council were the sole Welsh Authority to take part in that pilot which ran from November 2015 to May 2017.
- 4.1.3 On completion of the pilot, the Government concluded that joint working "Protects the integrity of the Welfare Benefit, Tax Credits, and Local Government systems" and as a consequence as previously reported to committee the National roll-out was due to commence October 2018.
- 4.1.4 The national roll-out commenced 28th April 2019. Swansea is one of 9 of the 22 Welsh Authorities currently undertaking joint investigations with the DWP.
- 4.1.5 Data outcomes for this work are shown at Appendix 1. Although there was a decrease in the number of cases investigated in 2018/19, the number of sanction outcomes increased. 8 cases were referred to the Crown Prosecution Service with 5 being prosecuted (2 cases in 17/18) and 4 Administrative Penalties in lieu of prosecution were offered and accepted (2 in 17/18). The value of overpayments realised decreased to £203,019.69 from £290,685.17 in 17/18, but that is reflective of the decrease in cases investigated. (NB: Due to the length of investigations sanction outcomes often occur in subsequent years)

4.2 National Fraud Initiative 2018

- 4.2.1 NFI is a bi-annual data matching exercise delivered by the Cabinet Office.
- 4.2.2 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.
- 4.2.3 Areas that are subject to data matching include:
- Blue Badge
 - Creditors
 - Council Tax Reduction
 - Housing Benefits
 - Housing tenants
 - Housing waiting lists
 - Immigration
 - Market traders
 - Payroll
 - Pensions
 - Personal alcohol licences
 - Personal budgets for social care
 - Right to buy
 - Student loans
 - Taxi licenses
 - VAT overpaid

- 4.2.4 NFI18 Matches were published on a Cabinet Office secure web-site at the end of January 2019
- 4.2.5 This authority received in excess of 10,000 matches of which 866 are considered High Risk.
- 4.2.6 Internally, the exercise is coordinated by the Chief Internal Auditor and the Fraud Investigation Officers, and matches have been allocated to officers based within the authority for scrutiny.
- 4.2.7 The NFI match investigations are ongoing and information on outcomes will be provided to subsequent Audit Committee.

4.3 Fraud Awareness

- 4.3.1 The Fraud Function continues to act as the hub for the receipt of Intelligence and Scam alerts from the National Anti-Fraud Network. Relative alerts are then circulated to the appropriate departments.
- 4.3.2 Annual Fraud Awareness training 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.
- 4.3.3 The team delivered a Banking Fraud Awareness training event along with the councils Cash management Team and our banking partners to educate corporate users of potential scams and how to best safeguard themselves to these threats. The event was attended by nearly 70 people and within a short period of time led to users being able to better protect themselves against such threats.
- 4.3.4 The team also attended events hosted by the Wales Fraud Forum and the Welsh Audit Office to ensure continual professional learning e.g. Concessionary Travel fraud.

4.4 Inter-Agency work and Data Exchange

- 4.4.1 During 2018/19 the team has continued to develop its role in inter-agency working and data exchange.
- 4.4.2 Staff have attended regular meetings and shaped the development of the Local Authority Welsh Anti-Fraud Officers group e.g. Uniformity in employee investigations.
- 4.4.3 Staff have also attended regular inter agency meetings with other government agencies tackling organised crime and hosted a meeting of the multi-agency Local Organised Crime Board.
- 4.4.4 The function was a consultee in the Auditor General for Wales report to the Public Accounts Committee (PAC) on Counter-Fraud Arrangements in the Welsh Public Sector and one of the Investigators gave a presentation to the PAC hearing at the Pierhead Building in Cardiff on Local Authority Counter-Fraud arrangements across Wales.

- 4.4.5 The purpose of the report was to outline the picture of Counter Fraud arrangements across the Public Sector in Wales and Swansea provided responses and information to this effect. The report concluded that there was no overarching policy or framework for LA's in Wales, resulting in a wide variety of arrangements from council to council. The Wales Audit Office have now been commissioned to further extend this piece of work and it is planned that Swansea will be a leading contributor to this additional exercise.
- 4.4.6 The function also played a senior command and intelligence role with South Wales Police in relation to Operation Timmea, an investigation into a series of serious and aggravated burglaries in South Wales and beyond.
- 4.4.7 During the year, the function has handled 435 requests for information from a raft of other government agencies.

4.5 Review of the Fraud Function Plan for 2018/19

- 4.5.1 Of the 9 planned Fraud Function activities 6 were fully achieved. Appendix 3 provides commentary against these activities.
- 4.5.2 For those activities not achieved, due to the teams reduced resources and the requirements of reactive work, in particular employee investigations, have continued to demonstrably restrict the opportunities for proactive work to be undertaken against the plan.

5. Equality and Engagement Implications

- 5.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

- 5.2 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 2018/19

Appendix 2 - Data for 2018/19 in respect of council employees.

Appendix 3 - Review of the Fraud Function Plan for 2018/19.

Appendix 1 - Overview of activities for 2018/19

Overview of cases:

Type	Joint Working with DWP	FF only	Total
Brought forward from 2017/18	30 (28)	45 (37)	75 (65)
New cases in 2018/19	9 (29)	172 (169)	181 (198)
Total	39 (57)	217 (206)	256 (263)

(Figure in italics refer to 17/18)

Status of cases:

Type	Joint Working with DWP	FF only	Total
Cases closed	24 (27)	177 (170)	201 (197)
Cases to be considered	0 (0)	9 (12)	9 (12)
Cases under investigation	15(30)	31 (24)	46 (54)
Total	39 (57)	217 (206)	256 (263)

(Figure in italics refer to 17/18)

Overpayments created:

Joint Working with DWP cases			
Created via FF		Created via DWP	
CTR	Other	HB & CTB	DWP
£16,444.87 <i>(£24,946.87)</i>	£466.20 <i>(£1,110.30)</i>	£59,132.03 <i>(£141,316.7)</i>	£126,976.59 <i>(£123,311.2)</i>
£16,911.07 <i>(£26,057.17)</i>		£186,108.62 <i>(£264,628.00)</i>	
£203,019.69 <i>(£290,685.17)</i>			

(Figures in italics refer to 17/18)

FF only cases
CTR & Other
£2,775.17 <i>(£7,184.13)</i>

Total of all overpayments
£205,794.86 <i>(£297,869.30)</i>

Appendix 2 - Data for 2018/2019 in respect of council employees

Type	Cases	Employees
Brought forward from 2017/18	17 (9)	17 (10)
New cases in 2018/19	17(15)	17 (25)
Total	34 (24)	34 (35)

(Figure in italics refer to 17/18)

Reason	Cases	Employees
Abuse Of Position	6	6
Expenses	1	1
Flexi Abuse	10	10
Not following procedures	1	1
Theft	4	4
Working whilst on sick leave	3	3
Other	9	9
Total	34	34

Employee Outcomes	
Type	Number
Investigation not appropriate	3
Investigated but no further action appropriate	7
Other Action Taken	1
Disciplinary - Dismissal	2
Disciplinary - Warning	6
Ongoing investigation	15
Total	34

Appendix 3 – Review of the Fraud Function Anti-Fraud Plan for 2018/19

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>1. Continue to consider new areas of activity:</p> <ul style="list-style-type: none"> • Planning, • Preparation, • Procedures. 	<p>Subject to available resources, to continue to explore new areas with a view to undertaking proactive activity. For example:</p> <ul style="list-style-type: none"> • Grants. • Payments for Social Care. • Procurement. 	<p>'Fact finding' in order to establish an understanding of relevant legislation and best practices.</p> <p>Devise and implement proactive exercises to:</p> <ul style="list-style-type: none"> • Assist in ensuring that funds are used for the intended purposes. • Identify fraud and error. • Seek to recover losses. • Take criminal action in appropriate cases. 	<p>Not achieved.</p> <p>Reduced resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.</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 & 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>The team continued to develop and strengthen its relationship with the Housing Department and undertook a number of investigations into sub-letting of council stock.</p> <p>Council property has again been returned to stock as a direct consequence of fraud investigations undertaken.</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 & external data matching.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>4. Tackle Council Tax Reduction fraud</p>	<p>Continue to investigate CTR fraud solely or jointly with DWP's Counter Fraud Division.</p> <p>From November 2015 to November 2017, The Fraud Function participated in a Joint Working Pilot with DWP's Counter Fraud Division to ensure that the full extent of all welfare benefit and CTRS frauds were considered / progressed via a single investigation.</p> <p>Due to the Government's intention to roll-out joint working nationally from 2018, following the cessation of the pilot, the Fraud Function adopted joint working with DWP's Counter Fraud Division as a 'business as usual' function.</p>	<p>Sharing information and expertise between the Fraud Function & DWP's Counter Fraud Division:</p> <ul style="list-style-type: none"> • To ensure that the totality of welfare benefit and CTRS are tackled in the most efficient and effective manner. • To identify overpayments and excess reductions. • To take sanction action in appropriate cases. Administrative Penalties and prosecutions. 	<p>Fully achieved.</p> <p>Although the national roll-out was delayed until April 2019 'business as usual' function allowed joint working to effectively continue.</p> <p>Overpayments have been identified and sanction action taken in appropriate cases.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
5. Tackle payments made in respect of Social Care (Direct Payments)	Continue to review and develop processes to aid the identification and investigation of any fraud.	<p>Fraud Function Officers to attain a practicable appreciation of relevant legislation and related processes applied to the application / monitoring of Direct Payments.</p> <p>Offer advice and guidance to Social Services. For example to ensure that relevant documents such as the Direct Payments Contract are 'criminally robust'.</p> <p>To consider 'suspicious' cases with a view to demining appropriate action, including:</p> <ul style="list-style-type: none"> • Seeking to ensure procedures and documents are adequately robust. • Identifying potential overpayments. • Instigating criminal proceedings where appropriate. 	<p>Not achieved.</p> <p>Reduced resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
6. Tackle Procurement fraud	Continue to develop proactive work in this area.	<p>Reinforce existing relationships between the Fraud Function 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>Not achieved.</p> <p>Reduced resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.</p>
7. National Fraud Initiative	Continue to participate in the biannual National Fraud Initiative coordinated by the Cabinet Office	<p>To ensure and appropriate number of matches are examined with particular reference to High Risk Reports</p> <p>To identify processes and procedures that need to be made more robust</p> <p>To identify overpayments and excess reductions</p> <p>To take appropriate action against offenders</p>	Fully achieved and work on the initiative is ongoing

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>8. Tackle other internal and external fraud, examples includes:</p> <ul style="list-style-type: none"> • Abuse of Position • Blue badge • Flexi time • Income collection and banking • Payroll • Pensions • Travel and subsistence • Etc 	<p>During 2018/19, the Fraud Function will continue to investigate various anomalies and referrals.</p> <p>The Fraud Function 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 Fraud Function will consider and investigate any other frauds if it is in the best interests of the Council and the public it serves.</p>	<p>Maintain public confidence by being 'transparent'.</p> <p>Maintain the Council's good reputation.</p> <p>Identify fraud, error and over payments.</p> <p>Instigate disciplinary / criminal proceedings as appropriate.</p> <p>Assist in the recovery of 'losses', financial or otherwise.</p>	<p>Fully achieved.</p> <p>The team has considered 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 in a timely manner.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
9. Raising Awareness	<p>Continue to raise awareness of the role of the Fraud Function 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"> • New – A guide to Corporate Fraud is included in Corporate Induction Training provided by Human Resources. • Existing – Continue to develop and deliver training as and when required. <p><u>Members:</u> Continue to deliver / presentations reports to the Audit Committee and other members as necessary.</p> <p><u>Public:</u> Continue to publicise activities, successes, and prosecutions.</p>	<p><u>Staff</u> -Target achieved. Staff have received bespoke training in appropriate areas.</p> <p><u>Members</u> - Target achieved. Reports and updates have been delivered regularly to the Audit Committee.</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>