



## Report of the Chief Auditor

Audit Committee – 8 September 2020

# Internal Audit Section – Fraud Function Annual Report for 2019/2020

<b>Purpose:</b>	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2019/20.
<b>Policy Framework:</b>	None.
<b>Recommendation(s):</b>	It is recommended that Committee review and discuss the work of the Fraud Function of Internal Audit in 2019/20 and its progress against the Fraud Function Anti-Fraud Plan for 2019/20.
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## 1. Introduction

- 1.1 This report provides a summary of the activities of the Fraud Function for 2019/20 and reviews achievements compared to target outcomes contained in the Fraud Function Anti-Fraud Plan for 2019/20.
- 1.2 At Section 5 of this report an update is also provided on the Covid 19 Fraud work undertaken so far this year.

## 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, social housing tenancy fraud, direct payments for social care 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 completed the management of the National Fraud Initiative NFI18. (See section 4.2)
- 2.3 Appendix 1 provides an overview of the activities of the function for 2019/20.
- 2.4 Appendix 2 provides further data for 2019/20 in respect of investigations undertaken by the function in relation to 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 2019/2020**

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

4.1.1 As previously reported since the introduction of the DWP's Single Fraud investigation Service (SFIS), the DWP became solely responsible for investigating all welfare benefit frauds, including Housing Benefit that is still administered by the Local Authority.

- 4.1.2 However the Fraud Function continue to work jointly with DWP where there is also a Council Tax Reduction (CTR) offence.
- 4.1.3 These working practices followed successful pilot that Swansea participated in and the national roll-out commenced 28<sup>th</sup> April 2019. Swansea is one of 9 of the 22 Welsh Authorities currently undertaking joint investigations with the DWP.
- 4.1.4 Data outcomes for this work are shown at Appendix 1. Although there was a decrease in the number of cases investigated in 2019/20, the value of overpayments realised increased to £232,357.84 compare to £203,019.69 in the prior year. Eight cases were referred to the Crown Prosecution Service, and as at 31<sup>st</sup> March 2020 and four cases have been successfully prosecuted. However the volume of cases subject to joint working has again decreased in 2019/20 and discussions are ongoing with the DWP in relation to this.

## **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 For NFI18 Swansea Council received in excess of 10,000 matches of which 866 were considered High Risk.
- 4.2.5 Internally, the exercise is coordinated by the Chief Internal Auditor and the Fraud Investigators, and matches were allocated to officers based within the authority for scrutiny.
- 4.2.6 NFI18 has now been completed. On a UK level over £244 million in fraud and error has been prevented or detected.
- 4.2.7 At a local level all High Risk matches were reviewed. Additionally 38% of all other matches were reviewed against a NFI minimum expectation of 20%.

- 4.2.8 Overpayments of only £1318.78 were identified (non-fraudulent) as a result of this work. Although significantly low in a national context this should be considered as an extremely positive outcome for Swansea as it means that the Council's systems and processes are routinely robust and resilient and this indicates that fraud and error is not entering the Council in the first instance.
- 4.2.9 However a significant resource is required to undertake the exercise to satisfy ourselves of the outcome. NFI20 data is due to be received in early 2021 when the exercise will again be required to be undertaken.

### **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 has delivered further Banking Fraud Awareness training to corporate users of the potential scams and emerging threats and how to best safeguard themselves against these threats. This and has 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.

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

- 4.4.1 During 2019/20 the team has continued to develop its role in inter-agency working and data exchange.
- 4.4.2 Staff have co-ordinated regular meetings and continued to shape the development of the Local Authority Welsh Anti-Fraud Officers group.
- 4.4.3 Staff have also attended regular inter agency meetings with other government agencies tackling organised crime and sit on the Local Organised Crime Board.
- 4.4.4 As reported in the 2018/19 Annual Report the Function was a consultee to the Auditor General for Wales report to the Public Accounts Committee (PAC) on Counter-Fraud Arrangements in the Welsh Public Sector.
- 4.4.5 Wales Audit were commissioned to further extend this piece of work and the function was again a consultee to this report in late 2019. The findings of the report have recently been released and its recommendations and commentary are being considered. **See Full Report at Appendix 4.**
- 4.4.6 During the year, the function received 469, requests for information from other government agencies, representing just over an 8% increase on 2018/19.

#### **4.5 Review of Outcomes against the Fraud Function Plan for 2019/20**

- 4.5.1 Of the 9 planned Fraud Function activities 6 were fully achieved. Appendix 3 provides commentary against these activities.
- 4.5.2 As in the Annual Report for 2018/19 the teams limited resources and the requirements of reactive work continue to be the main factor in those activities reported as not being achieved. The ability to be proactive in these areas was again limited.

#### **5. Update on Covid 19 Fraud work undertaken so far this year**

- 5.1.1 As reported to Audit Committee on the 1<sup>st</sup> June 2020 there were a number of emerging fraud risks associated with Covid 19 that had not been planned for when the Annual Plan for 2020/21 had been prepared.
- 5.1.2 Significant resources have now been diverted into previously unknown and newly designed areas of expenditure. In particular extensive resources have been diverted to support the effective and timely administration of a multitude of grant support packages and ensuring that fraud prevention processes have been developed to minimise the risk of fraud whilst delivering new products at a pace never previously experienced.
- 5.1.3 The Fraud Function have collaboratively worked with other Local Authorities and other Government departments to ensure that fraud data/intelligence has been shared to prevent fraud occurring where possible.
- 5.1.4 Some post event assurance on a pan Wales level has already commenced but the large scale post event assurance exercise in relation to the payment of Business Support Grants will now be incorporated into the NFI 2020 exercise.
- 5.1.5 Resources continue to be diverted to deter, prevent and detect fraud risks associated with Covid 19 a consequence of which is that limited time has been spent against the 2020/21 Annual Plan to date.
- 5.1.6 Further reports can be brought before the Committee as required.

#### **6. Equality and Engagement Implications**

- 6.1 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.

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

## **7. Financial Implications**

7.1 There are no financial implications associated with this report.

## **8. Legal Implications**

8.1 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 2019/20.

Appendix 2 - Data for 2019/20 in respect of council employees.

Appendix 3 - Review of the Fraud Function Plan for 2019/20.

Appendix 4 – Audit Wales Report – 'Tackling Fraud in Wales'

## Appendix 1 - Overview of activities for 2019/20

### Overview of cases:

Type	Joint Working with DWP	FF only	Total
Brought forward from 2018/19	15 (30)	13 (45)	28 (75)
New cases in 2019/20	4 (9)	242 (172)	246 (181)
<b>Total</b>	<b>19 (39)</b>	<b>255 (217)</b>	<b>274 (256)</b>

(Figure in italics refer to 18/19)

### Status of cases:

Type	Joint Working with DWP	FF only	Total
Cases closed	12 (24)	221 (177)	233 (201)
Cases to be considered	0 (0)	0 (9)	0 (9)
Cases under investigation	7 (15)	34 (31)	41 (46)
<b>Total</b>	<b>19 (39)</b>	<b>255 (217)</b>	<b>274 (256)</b>

(Figure in italics refer to 18/19)

### Overpayments created:

Joint Working with DWP cases				FF only cases
Created via FF		Created via DWP		
CTR	Other	HB & CTB	DWP	
<b>£16,499.54</b> (£16,444.87)	<b>£6,419.00</b> (£466.20)	<b>£88,730.20</b> (£59,132.03)	<b>£120,627.64</b> (£126,976.59)	
<b>£22,918.54</b> (£16,911.07)		<b>£209,357.84</b> (£186,108.62)		
<b>£232,276.38</b> (£203,019.69)				<b>CTR &amp; Other</b>
				<b>£3,261.52</b> (£2,775.17)

(Figures in italics refer to 18/19)

Total of all overpayments
<b>£235,537.90</b> (£205,794.86)

## Appendix 2 - Data for 2019/2020 in respect of council employees

Type	Cases
Brought forward from 2018/19	<b>16</b> (17)
New cases in 2019/20	<b>18</b> (17)
<b>Total</b>	

(Figure in italics refer to 18/19)

Reason	cases
Abuse Of Position	5
Expenses	2
Flexi Abuse	10
False Accounting	1
Theft	8
Secondary Employment	4
Working whilst on sick leave	1
Other	3
<b>Total</b>	<b>34</b>

Employee Outcomes	
Type	Number
Advice Provided	6
Fraud Not Proven	1
Discontinued	3
Resigned	1
Disciplinary – Dismissal	6
Disciplinary – Warning	6
Other Action taken	1
Ongoing investigation	10
<b>Total</b>	<b>34</b>



### Appendix 3 – Review of the Fraud Function Anti-Fraud Plan for 2019/20

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>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"> <li>• Grants.</li> <li>• Payments 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 exercises to:</p> <ul style="list-style-type: none"> <li>• Assist in ensuring that funds are used for the intended purposes.</li> <li>• Identify fraud and error.</li> <li>• Seek to recover losses.</li> <li>• Take criminal action in appropriate cases.</li> </ul>	<p>Not achieved.</p> <p>Limited 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 &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>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>
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 Council Tax Reduction fraud	National roll-out of joint working commences 29 <sup>th</sup> April 2019, and the joint working with DWP's Counter Fraud Division will become 'business as usual'.	Sharing information and expertise between the Fraud Function & DWP's Counter Fraud Division: <ul style="list-style-type: none"> <li>• To ensure that the totality of welfare benefit and CTRS are 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>	Fully achieved.  Although the national roll-out was delayed until April 2019 'business as usual' function allowed joint working to effectively continue.  Overpayments have been identified and sanction action taken in appropriate cases.  Note – Discussions ongoing with DWP to address fall off in number of joint investigations.

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.	Fraud Function Officers to attain a practicable appreciation of relevant legislation and related processes applied to the application / monitoring of Direct Payments.  Offer advice and guidance to Social Services. For example to ensure that relevant documents such as the Direct Payments Contract are 'criminally robust'.	Not achieved.  Limited resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.

		<p>To consider 'suspicious' cases with a view to demining 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>	
<b>Activity</b>	<b>Detail</b>	<b>Target Outcomes</b>	<b>Outcomes Achieved</b>
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>Limited 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(2018)	Fraud	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 again offenders</p>
			Fully achieved. NFI18 completed.

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/timekeeping</li> <li>• Income collection and banking</li> <li>• Payroll</li> </ul>	<p>During 2019/20, 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</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>Fully achieved.</p> <p>The team has considered all allegations made.</p>

<ul style="list-style-type: none"> <li>• Pensions</li> <li>• Travel and subsistence</li> <li>• Etc</li> </ul>	<p>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>Instigate disciplinary / criminal proceedings as appropriate.</p> <p>Assist in the recovery of 'losses', financial or otherwise.</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"> <li>• New – A guide to Corporate Fraud is included in Corporate Induction Training provided by Human Resources.</li> <li>• Existing – Continue to develop and deliver training as and when required.</li> </ul>	<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</p>

		<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>Publicity regarding FF's activities has appeared in the South Wales Evening Post and other media outlets.</p> <p>:</p>
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