

Report of the Chief Auditor

Audit Committee – 30 August 2016

CORPORATE FRAUD TEAM - END OF YEAR REPORT - 2015/16

Purpose:	To report on the activities and achievements of the Corporate Fraud Team during 2015/16.
Policy Framework:	Anti-Fraud and Corruption Strategy.
Reason for Decision:	To allow the Audit Committee to review and discuss the work of the Corporate Fraud Team during 2015/16.
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that the report is noted.
Report Author:	Talfryn Davies
Finance Officer:	Paul Beynon
Legal Officer:	Sandie Richards
Access to Services Officer:	Sherill Hopkins

1. SUMMARY

1.1 *Corporate Fraud Team created 1 June 2015.*

1.2 *Strategic and operational framework introduced:*

- Anti-Fraud Risk Assessment Checklist.
- Anti-Fraud Statement.
- Anti-Fraud Plan for 2015/16.
- Enforcement, Sanction and Prosecution Policy.
- Memorandum of Understanding and Expectations between the Corporate Fraud Team (CFT) and Human Resources.

1.3 *Suggestions made to amend / update relevant Corporate Polices:*

- Anti-Fraud and Corruption
- Disciplinary.
- Whistleblowing

1.4 *Fraud Awareness and Reporting:*

- Presentations to members and staff.
- New CFT Web pages devised.
- Internal and external media releases devised / published.

- 1.5 **Data Matching:**
- The examination and investigation of matches relating to NFI 2014.
 - The examination of a comparison between Council Tax Single Persons Discount (SPD) and Residents Parking Permits.
- 1.6 **Council Housing Tenancy Fraud:**
- A proposal to deliver a Key Amnesty exercise has been agreed.
 - A method to tackle unlawful sub-letting which is discovered by investigation is under construction.
- 1.7 **Participation in a joint working pilot with DWP's SFIS.**
- 1.8 **Headline figures 1 June 2015 to 31 March 2016:**
- Caseload = 125.
 - Cases to be evaluated or allocated to an investigator = 7.
 - Cases considered or investigated and closed = 90.
 - Cases under investigations = 28.
 - Savings achieved = £121,994.61.
- 1.9 **A glossary of terms and abbreviations can be found at Appendix 1.**

2. CORPORATE FRAUD TEAM CREATED 1 JUNE 2015

- 2.1 The Single Fraud Investigation Service (SFIS) was implemented in Swansea on 1 June 2015.
- 2.2 SFIS, is part of the Department for Work and Pensions (DWP) and became solely responsible for investigating all welfare benefit frauds, including Housing Benefit (HB) and Council Tax Benefit (CTB). However, the responsibility for investigating Council Tax Reduction (CTR) fraud remained with the Council.
- 2.3 As a consequence, 5 members of the Council's Benefits Investigation Team transferred to SFIS.
- 2.4 In order to retain the skills and expertise gained by the Benefits Investigation Team but to utilise them in a much broader remit, the 3 remaining members were retained by the Council as a new Corporate Fraud Team (CFT) within the Internal Audit Section.

3. STRATEGIC AND OPERATIONAL FRAMEWORK

- 3.1 In accordance with Section 151 of the Local Government Act 1972, every local authority has a statutory duty to ensure that all aspects of their financial affairs are properly administered i.e. to safeguard public funds and assets.
- 3.2 As a consequence, the following CFT documents / policies were devised and introduced:
- Anti-Fraud Risk Assessment Checklist:
This details the broad areas that should be considered to enable fraud and error to be minimised, effectively identified and tackled.

- Anti-Fraud Statement:
This details CFT's aim of tackling allegations of all fraud, irregularity or wrongdoing committed against the Council, by focusing on three key themes:
 - **Acknowledge:**
 - Acknowledging that as an organisation we are at risk of fraud and will seek to understand our fraud risks.
 - **Prevent:**
 - Promoting a zero tolerance anti-fraud culture across the community by publicising the impact of fraud on the community.
 - Publicising counter fraud work to the widest possible audience and report appropriate successful prosecutions to the media.
 - Participating in and undertaking Data Matching.
 - **Pursue:**
 - Taking a strong approach to recovering fraud losses.
 - In cases where fraud is discovered take criminal, civil or disciplinary action or a combination of these.
- Anti-Fraud Plan:
 - This represents the broad areas that will be covered during the year and sets out to provide a balance between proactive and reactive counter fraud activity.
- Enforcement, Sanction and Prosecution Policy (ESAPP):
 - To demonstrate the Council's ongoing commitment to safeguard public funds / assets.
 - To ensure that the decision making process in respect of further action is stringent, robust and transparent.
 - To ensure that sanctions are applied in a cost effective manner.
 - To seek to utilise the Council's own Legal Section to conduct / facilitate prosecutions.
 - To refer matters to other law enforcement agencies or regulators where appropriate and support those agencies in bringing proceedings.
- Memorandum of Understanding and Expectations between Human Resources (HR) and the Corporate Fraud Team (CFT):
 - To address the potential overlap between disciplinary and criminal investigations / offences.
 - To clarify the roles of HR and CFT, in particular the meaning, remit and purpose of the HR Investigating Officer and the Corporate Fraud Team Investigation Officer.

4. CORPORATE POLICIES

- 4.1 In order to address the role of CFT, amendments have been agreed with Human Resources in respect of the following Policies:
- Disciplinary
 - Whistle blowing
 - Anti-Fraud and Corruption
- 4.2 The amendments have been forwarded to the Trade Unions for comment.

5. FRAUD AWARENESS

- 5.1 Presentations to members and staff. For example:
- Audit Committee: 18.08.15, 17.11.15 and 19.04.16.
 - Communities Cabinet Advisory Committee: 10.12.15.
 - Housing Department's Senior Managers and Housing Officers: various dates.
- 5.2 Staff and public web pages devised and implemented on 01.04.16.
- <http://www.swansea.gov.uk/staffnet/fraud>
 - <http://www.swansea.gov.uk/fraud>
 - These pages:
 - Offer a one stop shop overview of all fraud types.
 - Provide advice and guidance on reporting fraud: how and who to.
 - Contain specific on-line forms to report fraud.
- 5.3 Internal and external media releases devised and published:
- South Wales Evening Post
 - 09.05.16: Online:
<http://www.southwales-eveningpost.co.uk/new-team-swansea-council-dedicated-tackling-fraud/story-29249175-detail/story.html#comments>
 - 13.05.16: Newspaper:
See Appendix 2.
 - Staffnet
 - 31.03.16 - Tenancy Fraud article.
 - 14.04.16 - Overview of the Corporate Fraud Team article.
 - May 2016 - Top Brief Newsletter.

6. DATA MATCHING - NATIONAL FRAUD INITIATIVE (NFI)

- 6.1 NFI 2014
- Historically, the Benefits Investigation Team only dealt with matches that involved HB, whereas the Internal Audit Section dealt with the non-HB matches.
 - Following the introduction of SFIS, CFT and a Fraud and Error Reduction Incentive Scheme (Feris) Officer in the Revenues and Benefits Section, towards the tail end of NFI 2014, it became clear that the approach to subsequent exercises would need to change.

6.2 NFI 2016

- The Chief Auditor remains the Key Contact responsible for overseeing the exercise on behalf of the Council.
- Data sets will be sent securely to the Cabinet Office in October 2016.
- Following the matching process, the matched records will be made available on the Cabinet Office's secure web-site in late January 2017.
- The Feris Officer will have a significant role in dealing with matches in respect of HB. They will look to minimise ongoing overpayments and make potential fraud referrals to SFIS.
- CFT will mainly deal with non-benefit related matches, for example:
 - Housing Tenants to Housing Tenants,
 - Pensions to DWP deceased data,
 - Private Residential Care Homes to DWP deceased data.

7. **DATA MATCHING – INTERACTIVE DATA EXTRACTION and ANALYSIS (IDEA)**

7.1 IDEA has been utilised by CFT to compare SPD records to Residential Parking Permit records.

7.2 This identified the following categories which are subject to ongoing examination to determine if there are any effects on SPD and / or benefit entitlements:

- 53 matches where there is a parking permit in a different name to the person receiving SPD.
- 98 matches where there are two permits awarded to the same person who is also liable for SPD.
- 3 matches where there are three permits awarded to the same person who is also liable for SPD.

7.3 In 2016/17, the intention is to explore the capabilities and wider use of IDEA in data matching.

8. **COUNCIL HOUSING TENANCY FRAUD**

8.1 Estimates suggest that each unlawfully sub-let property has a notional cost to the Council of between £83,000 and £101,000. This is based on:

- The cost to build a replacement property in Wales – ranging from £65,000-£83,000, added to
- The recognised 'industry standard' cost of £18,000 for keeping a family in temporary accommodation for 1 year.

8.2 Based solely on the £18,000 'industry standard' figure, the potential total loss to the Council and its householders is estimated to be as follows:

- 13,500 council properties in Swansea.
- The European Institute for Combatting Corruption and Fraud (TEICCAF) estimates in their publication Protecting the English Public Purse 2015 that 2% of housing stock (outside London) are at risk from potential tenancy fraud. In Swansea this equates to 270 properties.
- 270 x £18,000 equates to a potential loss of £4,860,000.

8.3 A proposal devised by CFT and then taken up by Senior Housing Managers to deliver a Key Amnesty exercise has been agreed by the Head of Housing and Public Protection and the Cabinet Member for Next Generation Services.

8.4 The purpose of the Key Amnesty is to:

- To encourage those misusing Council properties to surrender their tenancies 'no questions asked' without the Council having to take expensive legal proceedings to gain possession of the property.
- Reduce the number of properties being unlawfully sub-let.
- Recover properties that have been unlawfully sublet.
- Increase the available housing stock available.
- Reduce waiting lists.
- Negate the need to place people / families in temporary accommodation.
- Raise awareness of the problem of Tenancy Fraud and the damage that it does.
- Act as a deterrent to those who may be thinking about committing tenancy fraud.
- Show that the Council is taking all possible steps to tackle the problem of the lack of affordable housing in Swansea.
- Reduce anti-social behaviour and illegal activity which often increases when a property's sub-let.

8.5 Once the amnesty has ended any allegations of sub-letting will be fully investigated with a view to:

- Taking criminal proceedings against the tenant,
- Taking civil action to recover the property,
- Seeking to recover any profits the tenant has made from the illegal sub-letting of the property.

8.6 A method to tackle unlawful sub-letting which is discovered by investigation is under construction via 3-way discussions between CFT, Housing Department and Legal Section. The aim is to ensure that a streamlined eviction process can be put into place immediately an investigation demonstrates that an unlawful tenancy exists.

9. PARTICIPATION IN A JOINT WORKING PILOT WITH DWP'S SFIS

9.1 As mentioned earlier, on 01.06.15, SFIS became solely responsible for investigating all welfare benefit frauds, including Housing Benefit and Council Tax Benefit.

- 9.2 However, due to concerns (raised mainly by LA's) regarding potential loss of local knowledge, reduced information sharing and CTR offences either not being investigated or LA's undertaking a separate investigation alongside SFIS investigations, the Government commissioned a feasibility study into joint working between LA's and SFIS.
- 9.3 Following the production of feasibility report, the Department for Communities and Local Government (DCLG) and Department for Work and Pensions (DWP) were asked to test the joint working of fraud allegations concerning both DWP Welfare benefit fraud and LA administered CTR.
- 9.4 Five LA's (in England, Scotland and Wales) were invited to participate in a joint working pilot, including the City and County of Swansea as the only Welsh participant.
- 9.5 The aim of the pilot was to bring together the combined expertise of the Welfare Benefit Fraud investigation services undertaken by DWP's SFIS and LA CTR fraud investigators.
- 9.6 The pilot ran from November 2015 to May 2016 and aimed to test two strands of fraud work between DWP and LA's:
- Sharing of information to support each organisation's fraud detection work.
 - The joint investigations of fraud cases with a view to a single outcome / prosecution.
- 9.7 This approach was adopted in order to determine if the pilot could support the vision to minimise fraud and error across government.
- 9.8 Due to the initial success of the pilot, it has been extended for a further 6 months (May to October 2016) in order to fully test the processes involved in prosecutions:
- File preparation,
 - Referral to and action by the Crown Prosecution Service,
 - Issues raised and outcomes achieved in the Magistrate and Crown Courts.
- 9.9 The pilot sites have increased from 5 to 7, with City & County of Swansea remaining as the sole Welsh participant.
- 9.10 The general view of Government and stakeholders in the pilot is that joint working protects the integrity of the Welfare Benefit, Tax Credits, and Local Government systems. It also aims to contribute positively to the achievement of fraud performance measures across Government.
- 9.11 Therefore, if the extended pilot is successful, the Government intends to roll-out joint working nationally.

10. CASELOAD AND SAVINGS: 01.06.15-31.03.16

- 10.1 The CFT's caseload and savings are shown in the following tables

Analysis of Caseload Status			
Status	CFT Only Cases	Joint Working Cases	Total
To be Evaluated / Allocated	7	0	7
Live	17	11	28
Closed	87	3	90
Total	111	14	125

Savings Achieved				
Type	Actual		Theoretical £	Total £
	LA £	DWP £		
CFT only	49,046	N/a	763	49,809
Joint working with SFIS	29,372	42,814	N/a	72,186
Sub Total	78,418	42,814	763	121,995
Total	121,232		763	121,995

10.2 Appendix 3 provides a detailed analysis of the caseload and savings for 2015/16 and Appendix 4 provides details of how savings can be measured.

11. FINANCIAL IMPLICATIONS

11.1 There are no financial implications to those set out in the report.

12. LEGAL IMPLICATIONS

12.1 There are no legal implications to those set out in the report.

13. EQUALITY AND ENGAGEMENT IMPLICATIONS

13.1 An EIA Screening Form has been completed with the agreed outcome that a full EIA report is not required.

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Glossary of terms and abbreviations.

Appendix 2 – South Wales Evening Post report of 13.05.16.

Appendix 3 – Analysis of caseload and savings

Appendix 4 – How savings are measured.

GLOSSARY OF TERMS AND ABBREVIATIONS

Administrative Penalty

A 'fine' that the Council can offer to claimants who receive Council Tax Reduction where they have caused an excess reduction (an overpayment of CTR). The person must sign a declaration confirming that they have committed a criminal offence.

If the person refuses to accept the offer of an Administrative Penalty or accepts the Administrative Penalty only to withdraw the acceptance during the 14 day cooling off period or they fail to attend an interview to discuss the offer, the Authority must consider prosecuting them instead. Therefore, the standard of evidence required in Administrative Penalty cases is the same as Prosecution cases.

CFT - Corporate Fraud Team.

CTB - Council Tax Benefit.

CTR – Council Tax Reduction - the Local Council Tax Reduction Scheme which replaced CTB from 01.04.13.

Data Matching – An electronic comparison of Council records. Comparisons can be to the Council's own records and / or to those of other Council's and participating organisations. The aim is to identify and investigate discrepancies and minimise overpayments due to fraud and error:

- **IDEA** – Interactive Data Extraction and Analysis: Data Matching software used by the Internal Audit Section to identify duplicate or matching records within the Council's own records. For example Council Tax Single Persons Discount (SPD) to Residents Parking Permits, where the permit holder is a different person to the one receiving SPD.
- **NFI** - National Fraud Initiative: A bi-annual exercise coordinated by the Cabinet Office. NFI compares Council records both internally and externally to other Councils and participating organisations. All told, some there are some 1,300 participating organisations from across the public and private sectors.

NFI simply highlights matches rather than actual discrepancies further evaluation is required to determine if the match requires investigation. Records compared include:

- Benefits to: Payroll, Pensions, Housing Rents, Taxi Licenses, Personal Alcohol Licenses, Student Loans, and Immigration.
- Pensions to Payroll; Payroll to Payroll; Pensions to Deceased Persons, etc.

DWP - Department for Work & Pensions.

FERIS - The Fraud and Error Reduction Incentive Scheme (FERIS) offers financial rewards and funding to local authorities who reduce fraud and error in their Housing

Benefit cases. It's been available to local authorities since 2014/15 and has been approved to continue until the end of 2017/18.

HB - Housing Benefit.

IUC - Interview Under Caution

An IUC is a taped interview conducted in accordance with the Police and Criminal Evidence Act 1984 (PACE).

An IUC is undertaken where an Investigator considers there is evidence to suspect a person has committed a criminal offence.

LA - Local Authority.

Prosecution - criminal proceedings in the Magistrates or Crown Courts where the defendant has been summonsed or bailed to attend Court and subsequently found guilty.

SFIS - The DWP's Single Fraud Investigation Service (part of the DWP's Fraud and Error Service - based in Morriston).

SPD - A person liable for Council Tax receives a 25% Single Persons Discount.

TEICCAF - The European Institute for Combatting Corruption and Fraud.

When the Audit Commission closed 31 March 2015, its responsibilities in respect of the NFI were transferred to the Cabinet Office.

The remainder of the Audit Commission's counter-fraud staff and functions, including the Protecting the Public Purse and fraud briefings, were due to transfer to the Counter Fraud Centre run by the Chartered Institute of Public Finance and Accountancy (CIPFA).

However, in November 2014, CIPFA withdrew from an agreement to continue the counter-fraud work of the Audit Commission, including *Protecting the Public Purse (PPP)*. This potentially left a gap in local authorities' knowledge of current and emerging fraud trends.

In response to this and other concerns, a number of stakeholder organisations came together to form, The European Institute for Combatting Corruption and Fraud (TEICCAF). This includes the former counter-fraud team of the Audit Commission. TEICCAF agreed to continue the *PPP* series of reports, now called *Protecting the English Public Purse (PEPP)* and the annual detected fraud and corruption survey.

SOUTH WALES EVENING POST REPORT OF 13.05.16

New team set to take action against fraud

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SWANSEA Council has put together a new team which is dedicated to tackling fraud – both inside and outside the authority.

The new Council Corporate Fraud Team (CFT) will promote a zero tolerance culture to fraud, encouraging reporting of suspicions and taking

action where evidence confirms “wrongdoing” or fraud.

It will be responsible for investigations into areas such as council tax discounts and exemptions, council tax reduction, social housing, blue badges, direct payments for social care, grants and internal fraud in areas such as contracts, procurement, payroll, expenses.

If fraud is uncovered all appropriate action will be taken including disciplinary action, criminal

prosecutions as well as recovery of losses.

The team consists of staff from the former Benefits Investigation Team — whose work was transferred to the Department for Work and Pensions last year.

Phil Roberts, strategic director of regeneration and housing, said: “Every single one of us has a role to play in stopping fraudsters stealing our budgets.

“Fraudsters do not respect

boundaries, rules, or regulations and will take any opportunity to steal money that is intended to help others.

“We must stop them and I am sure that, with the help and support of staff, we will succeed in doing just that.

“The creation of the CFT is another foundation that embeds counter fraud activity into day-to-day running of the Council and demonstrates unequivocally that the City and County of Swansea will not tolerate fraud.” he added.

ANALYSIS OF CASELOAD AND SAVINGS
Appendix 3

No.	Type of Fraud	Service Area	Source of the alleged fraud	Brief Description of the alleged fraud	Saving £
20	Council Tax Reduction	Revenues and Benefits	12 Internal 4 Public 4 Other	Income, Capital, Non-residency, Living Together, Non-dependents	1,805
18	Housing Benefit	Revenues and Benefits	11 Public 6 Internal 1 NFI	Income, Capital, Non-residency, Living Together, Disability	6,329
17	Single Person Discount	Revenues and Benefits	9 Public 8 Internal	False statements in respect of SPD: undeclared partner or non-dependant	273
17	Blue Badge	Customer Services	13 Public 1 Internal 3 Other	12 Misuse 5 Disability	0
14	Benefits	Revenues and Benefits	9 Public 3 Internal 1 Data Matching 1 DWP	Cases considered as part of the joint working pilot with SFIS	72,186
10	Tenancy related	Housing	5 Internal 3 Public 2 NFI	7 non-residency 3 sub-letting	0
9	Staff Related	3 Social Services 2 Cleaning Services 1 Corporate Building 1 Education 1 Housing 1 Waste Management	5 Internal 4 Public	4 False accounting 1 Abuse of position 1 Misuse 3 Other	30,629
2	Residents Parking Permits	Parking Services	1 Internal 1 Public	1 Misuse 1 False statement	0
1	Direct Payments	Social Services	1 Public	1 False statements in respect of a Financial Assessment	0
1	Council Tax Exemption	Revenues and Benefits	1 Public	1 False statements in respect of student occupation	854
1	Procurement	Accounts Receivable	1 Internal	1 Attempt to change a major contractors bank account details	0
15	Other	Various	8 Internal 2 NFI 1 Public 4 Other	3 False accounting; 2 False Identity; 1 Capital; 1 LT 1 Non-residence 1 Non-dependent 6 Other	9,919
125					121,995

HOW SAVINGS ARE MEASURED

Actual:

- Monies received or recovered, e.g. via:
 - Overpayments of HB/CTB/CTRS.
 - CTRS Administrative Penalties.
 - Proceeds of Crime Act 2002.
 - Unlawful Profit Orders - Prevention of Social Housing Fraud Act 2013.
- Assets recovered, e.g. a Council property returned to stock.
- Savings made by undertaking the task in a different way, e.g.:
 - The cost of CFT surveillance compared to an external third party.
 - Saving resulting from the strengthening of internal controls (comparisons on costs could be made year on year to calculate a net saving).
- Extra liability created, e.g. via the removal of Council Tax SPD.
- Overpayments created (available to be recovered / yet to be recovered).

Theoretical:

These savings could be stand alone or claimed in addition to an actual saving:

- Recognised Industry Standards.
- Other justifiable savings, e.g.: an employee on sick leave is due to retire in December. Due to CFT actions they instead retire a few months earlier. A theoretical saving is claimed for salary and on-costs saved for the period between the old and new retirement dates.

Deterrent:

The deterrent value of having a CFT, offering a confidential way to report concerns, acting on the concerns, taking appropriate sanctions and publicising successes is immeasurable.

Procedural:

Some internal investigation may not yield measurable actual or theoretical savings. However, they may and have resulted in changes in policies and procedures which will ultimately reduce the potential for loss. For example:

- Following an allegation received, an investigation highlighted that two members of staff were leaving work some 10 to 15 minutes earlier than the times reflected on their timesheets. Findings were passed to the Client Department. The Client Department took account of the findings of the investigation in their parallel commissioning review, which resulted in the implementation of revised working arrangements in respect of their entire staff. Staff were reminded that they must record their actual start and finish times and not simply their contracted times. An all-staff programme of unannounced spot checks has been introduced to ensure the times entered on the timesheets are correct.

- Following information received from the Council's bankers, an investigation into counterfeit cheques was undertaken. As the fraud was targeted against the Council's bankers by parties external to the Council, no losses were incurred by the Council. A full report on this matter was delivered to the Audit Committee in April 2016. Recommendations included:
 - The Authority should urgently explore all available opportunities to reduce the very high volume of cheques it is still producing in order to make efficiencies and simultaneously reduce the opportunity for similar incidents to occur.
 - The practice of shredding any spoilt cheques should stop with immediate effect. Spoilt or cancelled cheques should be kept on file for any subsequent reconciliation or verification purposes.
 - ICT Services to ensure that the most secure and cost efficient IT hardware is being utilised to produce cheques and minimise the high number of spoilt cheques.
 - All cheque continuity control books should be held in one central location not in separate locations as currently happens. This will ensure adequate controls are in place and are consistent.
 - All schools should be instructed to reconcile all their accounts regularly with a minimum standard as an Audit expectation i.e. monthly reconciliation.
 - All schools should avail themselves of the internet banking facility offered by our bankers to facilitate effective reconciliation of accounts and reduce costs.
 - The Council's bankers should be requested to provide direct access to all Schools Delegated Accounts to the Schools Accounting Service to further assist the effective reconciliation of accounts.