



Audit and Standards Committee Report

Report of: Dave Phillips, Head of Strategic Finance

Date: 14 June 2018

Subject: Internal Audit Fraud Report

Author of Report: Stephen Bower, Finance Manager (Internal Audit)

Summary:

The purpose of this report is to inform the Audit and Standards Committee of the outcomes of the work undertaken by Internal Audit on fraud and corruption in 2017/18 and the proposed work for 2018/19.

The report also includes the full suite of updated policies that cover the various elements of the fraud and corruption framework for the Council.

Recommendations:

1. That the Audit and Standards Committee notes the content of this report.
 2. The Audit and Standards Committee are asked to endorse the suite of Council Policies to cover the anti-fraud framework of the Council. (**Appendix B-H**)
 3. That the Audit and Standards Committee notes the completed checklist for those responsible for governance (**Appendix A**).
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Background Papers:

Category of Report: Open

* Delete as appropriate

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO Cleared by:
Equality of Opportunity implications
YES /NO Cleared by:
Tackling Health Inequalities implications
YES /NO
Human rights implications
YES /NO
Environmental and Sustainability implications
YES /NO
Economic impact
YES /NO
Community safety implications
YES /NO
Human resources implications
YES /NO
Property implications
YES /NO
Area(s) affected
Corporate
Relevant Scrutiny Board if decision called in
Is the item a matter which is reserved for approval by the City Council? YES /NO
Press release
YES /NO

Sheffield City Council

Report to the Council's Audit and Standards Committee

Fraud and Investigations

June 2018

Purpose of the Report

1. This is an annual report produced by Internal Audit to show the work that has been undertaken across the Council in relation to Fraud and Investigations. This report is to “those charged with governance” which in the case of Sheffield City Council is the Audit and Standards Committee, to show the work that has been undertaken within Internal Audit and how this fits into the national picture. It will provide assurance on the work undertaken.
2. This report shows the outcomes from the work undertaken in 2017/18 and highlights the work to be undertaken in 2018/19. In addition all of the Council policies relating to fraud have been updated during the year and are appended to this report for members to review and endorse. The policies now form a suite which gives a consistent approach for the identification of fraud risks and their mitigation. There is also a process to allow managers to investigate potential fraud risk effectively in line with the other relevant policies and procedures.

Background

3. The Cabinet Office is responsible for the National Fraud Initiative (NFI). This is a biennial process, where data is supplied from a number of Council systems and is matched to data supplied from other Council's and third parties such as DWP and banks and building societies. Any data matches are then submitted to the Council to be investigated. This process is tracked by Internal Audit and this report will show the outcomes from the matches received by the Council in February 2016.
4. CIPFA produce an annual fraud and corruption tracker report, which correlates data from Council's and draws together an overall picture of fraud in Local Government across the Country. Information from the CIPFA report will be referenced in this report.
5. At the end of this report we have provided a checklist similar to previous years to provide the Audit and Standards Committee with assurance on the robustness of the Council's Counter Fraud arrangements. This has been revised to take account of the work that has been undertaken during the year.

6. As reported previously the Council no longer investigates Housing Benefits frauds. These are undertaken by the Single Fraud Investigation Service (SFIS) which is part of the Department of Work and Pensions (DWP). The team who previously undertook this work in Capita transferred to DWP. This is mentioned, as some of the work referenced particularly in regard to NFI includes figures relating to Housing Benefit fraud. Although these are identified within the Council, they are passed to the DWP for investigation and ultimate sanction.

CIPFA Fraud Report

7. The current level of fraud reported in Local Government in 2017 is approximately £336 million; the actual level is estimated to be much higher than this, at anything up to £2.2 billion. The total public sector fraud is estimated at £22 billion. The most significant areas by value is housing benefits and housing tenancy fraud, together accounting for 65% of the Local Government total. The most prevalent frauds committed relate to single person discount fraud which makes up over half of the reported frauds (but are of smaller value). (Source CIPFA annual fraud and corruption tracker report).
8. The report highlights that 75,000 frauds have been detected and prevented across authorities in 2016/17. Although this was a reduction in the number of cases investigated, the average value of the frauds rose by £1,100 to £4,500 each. Much of this is due to housing benefit fraud, which due to values involved, tends to be far greater in London and South East than the rest of the country as a whole.
9. These levels are significant and obviously reduce the resources available for front line services.
10. Fraud by its very nature is often difficult to detect, however those wishing to undertake acts of fraud will look to target weaker and more vulnerable areas. Sheffield is not complacent and as part of Internal Audits normal work we look to ensure that where fraud is highlighted as a risk that adequate controls are in place.
11. Sheffield City Council has robust processes to try to prevent and detect fraud. These have been reviewed and are included in the appendices to this report. The work of Internal Audit should also reduce the prevalence of frauds, by ensuring services and processes have robust controls in place.
12. In Sheffield City Council we require that Capita undertake an annual exercise into Single Person Discounts on Council Tax. This exercise significantly reduces the risk of this type of fraud occurring.

Work undertaken in 2017/18

13. The volume of investigations undertaken by the Council has remained constant over the year (although significantly less than when housing benefits frauds were undertaken). The volume of cases undertaken by Internal Audit has also remained fairly static. The number of cases reported to Internal Audit rose from 37 cases in 2016/17 to 58 in 2017/18. This is a significant increase however, it would appear that this is due to better reporting of cases in particular from Human Resources who often identify issues such as timesheet fraud as part of wider staffing issues.
14. Of the 58 cases reported to Internal Audit, twelve of these cases related to the theft of, or from, parking machines. Internal Audit were involved directly in the investigation of 19 of the 58 cases and provided support to management (where applicable) in the remaining cases. Internal Audit has only a limited amount of qualified investigator resources and these are therefore targeted at the most appropriate cases.
15. The majority of cases investigated, related to members of staff. With such a large workforce covering a large number of services there will always be a range of issues. The cases reported to Internal Audit, covered a similar range of frauds as in previous years, with cases including false claims for services/benefits to theft and falsification of mileage claims. In all cases these were dealt with efficiently and following investigations appropriate sanctions were applied where the issues were found to be proven. This resulted in a number of dismissals. In some cases it was also found that there was no or insufficient evidence of fraud for action to be taken.
16. In addition to the above there was also an additional 27 prosecutions for misuse of blue badges. This acts as a significant deterrent to misuse. There were also a number of cases where social housing was recovered and legal action taken as a result of potential housing tenancy fraud. Both of these areas are dealt with by separate units embedded into the relevant Council services.
17. It is difficult to fully determine the number of fraudulent tenancy cases as often the tenants will simply hand back their tenancy when they are aware of an investigation taking place. This means that often lengthy and costly legal action is avoided and the houses are then available to be used by the citizens of Sheffield. The Council will always take the appropriate legal action if fraud can be proved, even if the tenancy has been given up.
18. There were a series of parking machine thefts in May 2017, mainly around the city centre. Although the cash stolen in each case was only small in relation to the efforts taken by the criminals, the cost of replacing the machines is significant and amounted to over £60,000. Additional security measures were introduced by the Council to try to prevent reoccurrence. The police were unable

to apprehend the people responsible. Parking services are looking to replace many machines with new robust machines, to aid security and increase performance. They are also offering additional methods of payment such as card payments, which will reduce the value of cash in machines and therefore their vulnerability to thieves.

19. Where issues were identified during any investigation these were reported to management for action. In addition, where warranted, further work was undertaken in the form of additional audit reviews to ensure that where practicable, suitable measures are in place to minimise the chances of reoccurrence.
20. There have been a small number of whistle blowing cases which have been reported and investigated. These issues were all discussed with the Head of Strategic Finance; however in all cases there was no evidence of fraud taking place and no action was recommended against employees.
21. Three pieces of counter fraud work were undertaken and again, these did not identify any instances of fraud being undertaken. These related to the Appointeeship Service, vetting of new starters and a review of high risk Fraud areas. Recommendations have been made in these areas where required, to improve control processes and the review of Appointeeships Service will be monitored as part of the bi-annual high opinion audit report tracker. An additional review of procurement fraud risks has been deferred to 2018 due to changes in the service.
22. In addition, there was work on data matches relating to the NFI exercise which are reported later.

The Anti-Fraud plan for 2018/19

23. As can be seen from the Internal Audit plan for 2017/18 approximately 16% of the plan (or 260 days) is allocated to anti-fraud matters.
24. The plan covers 5 areas.
 - Time for investigations (this is an allocation of time from which individual investigations are allocated).
 - Time to review and update the Council's anti-fraud e-learning module.
 - Time to undertake work on the National Fraud Initiative, including the submission of data from across the Council, undertaking checking of the data matches and providing help and support to officers reviewing the matches in service.

- Time to undertake an annual review of the Housing Benefits processes.
- Four reviews to assess areas from an anti-fraud perspective which have been risk assessed as having a higher potential of fraud. This can be for a number of risk factors such as cash handling, or where control weaknesses were identified in the past. In the current year this will include Commercial Service fraud risks, Members interests and allowances, staff expenses claims and the vetting of agency staff and consultants.

25. At present, based upon the level of referrals in the past few years the resourcing should be adequate. However if the number of investigations should increase or become more complex, than resources may need to be reallocated in this area.

National Fraud Initiative (NFI)

26. The Council is mandated to supply a number of data sets covering such areas as payroll, pensions, creditors, debtors, housing tenants, supported care home residents, blue badge holders, insurance claims and the electoral roll. These were supplied to the Cabinet Office in October 2016 (a new submission will take place later this year).

27. A national exercise is undertaken to collate this information electronically and where appropriate to provide data matches. These matches were provided to the Council in January 2017. These could be frauds or error, but in most cases is a result of issues like timing differences in the data.

28. The National Fraud Initiative (NFI) for 2016/17 returned 16,469 data matches for the Council. These were categorised according to the significance of the matches identified. The most significant matches are those classed as recommended. There were 4,466 matches in this category. The Council has reviewed a total of 4,915 cases from the total data matches and closed these off.

29. Twenty three frauds and 138 errors were identified, totalling £189,826.07, with the intention of recovering £149,593.95 of the amount identified. The £31,057.32 not being recovered relates to pension gratuities which have been paid to the accounts of deceased individuals.

30. Internal Audit have examined the results and two match-reports with meaningful outcomes were Housing Benefits to Student Loans (over £70,300 is being recovered) and Housing Benefits to pension data (over £12,000 is being recovered). As a result of this, work has been included in the audit plan to review the controls to try to determine if these figures can be reduced.

31. Internal Audit have provided support where required to services reviewing data matches and have monitored and followed up actions until the cases were closed. Internal Audit has checked the outcome and provided the required declaration to the Cabinet Office that the exercise has been undertaken

appropriately. Later this year there will be a report which will show the outcomes of this work nationally.

Other Potential Fraud Issues

32. The Council has a number of standard processes which aim to detect and remove potential frauds before they occur. Although these have the potential to be frauds, they are dealt with as errors and are excluded from fraud recording. The issues raised appear for the most part to be repeated year on year and the normal work of Internal Audit is important in ensuring that services have the required controls in place to mitigate these fraud attempts.

33. Examples of the types of issues that we are referring to above are:

Bank Mandate Fraud – We continue to have attempted bank mandate frauds against us which simple checks have prevented being processed. The potential cost for these is significant. These frauds are all reported on line to Action Fraud for follow-up by the police.

Insurance Claims – We continue to have a number of instances where false or exaggerated claims have been submitted to the Council. These were found during checking procedures and were refused payment.

34. All of these issues highlighted are classed as suspicious incidents; these however were not prosecuted or reported as fraud.

Developments in fraud investigation across the Council.

35. Internal Audit have undertaken a review of the investigations process in the Council and work has been undertaken to address the issues identified and to provide additional support and guidance to managers who undertake investigations. There is now a much closer and more structured working relationship between Internal Audit and HR as well as the Monitoring Officer to cover investigations and Whistle Blowing.

36. We are currently working with colleagues in training and development to produce a new eLearning package to support the implementation of the new policies.

Checklist for those responsible for governance.

37. A checklist similar to previous years is included at **Appendix A**.

38. The tolerance of fraud within an organisation is a key element of a counter fraud framework. SCC has formally adopted a Policy Statement on Fraud &

Corruption that underlines a zero tolerance to such acts. Fraud awareness training has been provided to services throughout the Council, which will be refreshed and re-launched during 2018/19.

Sheffield City Council Suite of Anti-Fraud and Corruption polices.

39. During the year the Council's policies for Anti-Fraud and Corruption were reviewed. It was noted that these policies had been produced over a number of years and needed updating to ensure that they up to date and fit for purposes. It was also noted that there were gaps in particular relating to anti-bribery legislation and also the lack of an overall policy, to draw them together into a consistent framework. All of the policies have now been redrafted to give a clear and concise message on the Council approach to Anti-Fraud and Corruption.

Appendix B

40. **Anti-fraud and Corruption Policy Statement and Strategy** – This is a new overarching document which draws together all of the Council's other polices in relation to the fraud and corruption. It follows the CIPFA Code in that it acknowledges the responsibilities of Officers and Members for countering fraud and corruption. It demonstrates how the Council will try to prevent fraud by identifying the fraud and corruption risk and then identifying strategies to mitigate these. It also sets out how the Council will pursue and take action against those who try to perpetrate fraud and corruption.
41. The policy restates that the Council has a zero tolerance to fraud and expects everyone associated with the Council to adhere to its policies. The framework also shows how a number of polices in different areas across the Council mesh together to form the overall anti-fraud governance arrangement.

Appendix C

42. **Fraud Risk** - This document is significantly updated from the previous document. It is designed to help managers in identifying fraud risks in their areas and to put forward strategies to manage and mitigate these risks. It includes information on the impact of fraud, the potential fraud indicators and the control measures that can be put in place to minimise these.

Appendix D

43. **Fraud Response Plan** – This document had been rewritten to aid managers in the dealing with potential fraud issues and to investigate these in line with the Council's relevant HR policies.

Appendix E

44. **Anti-Money Laundering Policy** - This document has been fully revised to comply with the current legislation in this area. It set out what individual need to do if they become aware of any potential money laundering activity.

Appendix F

45. **Anti-Bribery and Corruption Policy** – This is new document which has been devised to fill a gap in the Councils current framework. By having this policy and adhering to it, it ensures that the Council has a defence should it or any of its employees be accused of bribery and corruption.

Appendix G

46. **Know your customer** – This is a new document to aid checking customers across the Council to comply with bribery and money laundering requirements.

Appendix H

47. **Guidance to schools** – This is a new document that is being made available to schools so that they can more easily identify and mitigate the risks that they face in relation to fraud and corruption. There is also a checklist to allow governors to ensure that fraud risk are being considered appropriately.

Recommendations

48. That the Audit and Standards Committee notes the content of this report.
49. That the Audit and Standards Committee reviews and endorses the anti- fraud policies of the Council.
50. That the Audit and Standards Committee notes the completed checklist for those responsible for governance (**Appendix A**).