



Agenda Item 10

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE
28th April 2015

REPORT OF Interim Director of Finance.

ITEM

SUBJECT **Protecting the Public Purse annual fraud report**

SUMMARY

The purpose of this report is to inform the Audit Committee of information and key recommendations contained in the Audit Commission's annual 'Protecting the Public Purse 2014' report and to provide an update on fraud investigation activity within the Council during 2014/15 and beyond.

RECOMMENDATIONS

1. That the Audit Committee notes the content of this report.
2. That the Audit Committee notes the completed checklist for those responsible for governance (Appendix A)

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
66

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

TEL NO.
0114 27 35587

AREA(S) AFFECTED

CATEGORY OF
REPORT

Open

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
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 Audit Committee – April 2015

Audit Commission Report - Protecting the Public Purse

Purpose of the Report

1. To inform the Audit Committee of information and key recommendations contained in the Audit Commission's 'Protecting the Public Purse 2014' report.
2. To provide the Audit Committee with a completed checklist for those responsible for governance. The checklist is attached and is provided to show to the Audit Committee how the various risks identified for fraud have been mitigated.
3. To provide the Audit Committee with details of fraud activity reported to Internal Audit and investigated within the authority during financial year 2013/14. Details have been included from the 2014/15 financial year, and also work intended for completion in 2015/16.

Introduction

4. The Audit Commission has published its annual 'Protecting the Public Purse 2014 – fighting fraud against Local Government' report which provides a summary of detected fraud and identifies key fraud risks affecting local government. The publication also provides recommendations of good practice in managing the risk of fraud for both central and local government. The report is published near the end of the year, to allow it to amalgamate and summarise the responses that it receives from all local government and other bodies for the previous year.
5. This is the last protecting the public purse report that will be produced, following the closure of the Audit Commission. The National Fraud Initiative (NFI) role will be taken on by the Cabinet Office and CIPFA will run a Counter Fraud Centre to deal with the remaining fraud issues. We have included at the end of the report a number of changes to fraud investigation which have occurred during the year which will impact on the service going forward.
6. This report summarises the key fraud risks contained in "Protecting the Public Purse" and incorporates the SCC perspective on these risk areas.
7. Throughout the year we have become aware of a number of issues which, had the report been produced going forward would have required further clarification, as we have only included in our reported figures areas where

we have had proven fraud against the council. We are not saying that our processes are beyond reproach but there are a number of instances where we have had suspicious issues as part of our processing and checking regimes, but which did not lead to actual fraud and were discovered in the system processing.

8. Examples of the types of issue that we are referring to above but which would not be included within the returns are:

Insurance Claims – We 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.

Housing Tenancy Fraud – We have a number of investigations within the council which have led to properties been returned to the council for re-tenanting, these may well have been as a result of fraud. The key aim is the recovery of the property and therefore there is little incentive in obtaining the additional evidence required to prosecute the fraud once the property has been returned. The resources are focused on property recovery.

Bank Mandate Fraud – We have had a series of bank mandate frauds which simple checking have prevented being processed. The potential cost for these is significant. We have reported these issues to the police; however the response from the relevant forces across the country has been weak. This is primarily due to the fast movement of the crime.

Thefts – We have had a number of instances of suspected thefts in the council which the police have agreed for us to investigate and deal with through the council's due processes. The police deal with these as low level instances and often the cases will not meet the higher burden of proof required for criminal prosecution by the Crown Prosecution Service.

Timesheet Fraud – We have had a number of these cases which have been dealt with through the council's processes, often leading to dismissal, but which do not meet the criminal prosecution threshold required by the police.

9. All of these issues highlighted are classed as suspicious incidents; these however were not prosecuted or reported as fraud. It could be that other councils have similar cases, or that they classify cases differently.
10. This report also includes details of SCC activities intended to address the key fraud risks as identified by a checklist contained in the appendices of

the Protecting the Public Purse publication (checklist for those responsible for governance).

11. The report highlights the key messages on fraud in the public sector, namely;
- It is estimated that fraud costs the UK public sector more than £21 billion a year and local government more than £2.1 billion (although this is believed to be an underestimate).
 - In a time of austerity, preventing fraud is even more important to protect the public purse.
 - Every pound lost through fraud cannot be spent on providing public services.

Key Fraud Risk Areas

12. The Audit Commission collected fraud data from almost 500 public sector organisations during 2013/14 to provide a comprehensive picture of detected fraud. The results of the survey map the extent and location of detected fraud and help to identify good practice.

13. The following table summarises the 2013/14 survey of detected fraud in local government in comparison to the previous year's figures.

	2012/13	2013/14	Percentage Difference
Total fraud			
Total value	£178,000,000	£188,000,000	+6
Number of detected cases	107,000	104,000	-3
Average value per case	£1,664	£1,808	+8
Housing benefit/ council tax benefit			
Total value	£120,000,000	£129,000,000	+7
Number of detected cases	47,000	47,000	-1
Average value per case	£2,553	£2,745	+8
Non benefit fraud			
Total value	£58,800,000	£59,000,000	+4
Number of detected cases	59,800	57,400	-4
Average value per case	£983	£1,027	+4.5

14. The above figures do not include the value of detected housing tenancy fraud.
15. The types of fraud that are included in the “non-benefit fraud” category primarily consist of; council tax fraud, procurement fraud, abuse of position, payroll pensions and expenses fraud, disabled parking concession fraud, false insurance claims and social care fraud.
16. The report highlights the areas where the largest increases in fraud have occurred over the past five years in local government these are:

Council tax discount fraud - these are currently running at 50,000 cases per year worth £16.9 million

Right to buy fraud- these have increased more than five-fold in the period to 193 cases worth £12.3 million. The rise in number of these frauds followed large increases in the discount threshold over the period.

Social Care fraud – these cases have more than trebled in the period to 438 worth £6.2 million. This is mainly as the result of the changes to personal budgets.

Insurance fraud - has risen in the period from 72 to 2226 cases worth £4.8 million.

Social Housing – the number of homes recovered as result of tenancy fraudsters has increased by 15 per cent in the last year to 3,030.

17. It is noted in the report that the largest number of tenancy related frauds are identified in London. This is primarily because the incentive for such activity is far larger due to the disparity between the cost of social housing rents and private property values in the capital.

Yorkshire and the Humber

18. The report shows the detected frauds by region. In 2013/14 the information supplied is different from previous years and therefore is not comparable. The data does show that based on 2012/13 expenditure figures (the most recent available) the councils in the region spent 10.1% of all English council spending. Between them the regional councils detected 7.7% of all fraud cases, and these accounted for 8.3% of the total value detected. These percentages equate to 8,018 cases with a value of £15.6 million.

Fraud by type

19. Below we have identified the main types of fraud within Sheffield City Council.

Housing Benefit Fraud

20. In 2013/14 the council detected 147 cases of fraud relating to housing benefit with a value of £1,227,430. This figure is far less than the average for metropolitan district councils at 584. The value of each case was however far higher, the council contractor undertook an initiative to focus resources on larger cases as a result of a reduction in staffing. The lower value cases were dealt with through processing; this recovered the cost without prosecution and are therefore not included in the 147 figure.
21. From February 2015 all fraud cases for benefits fraud will be undertaken directly by the Department of Works and Pensions (DWP) this is detailed later in the report. This has meant that in the current year (2014/15), there was a shift in workload with investigations being passed to DWP at an early stage to allow staff to concentrate on the data transfer process, this makes comparisons of in year work with previous years irrelevant.

Council Tax Discount Fraud

22. It is noted that the council did not record any frauds of this type in the year.
23. The council's contractor undertakes an annual exercise to identify possible cases and then follows them up and addresses them through an administrative process. We have noted that other councils undertaking the same processes are counting these as fraud, which significantly increases their figures. As part of the counter fraud activity for 2015/16 we will be looking at these processes, with a view to counting these as fraud where relevant in the future.

Housing Tenancy Fraud

24. There are approximately 4 million social housing properties in England with an asset value of more than £180 billion. Over half the stock is managed by housing associations and the waiting list totals approximately 2 million families.
25. Housing tenancy fraud refers to the unlawful use of social housing and includes;
- Illegal sub-letting (against the conditions of the tenancy)
 - Provision of false information to obtain a tenancy

- Wrongful assignment/succession of tenancy where no longer occupied by the original tenant
 - Abandonment, selling the key to a third party or failing to use the property as the principal home.
26. The value of housing tenancy fraud was placed at £915 million a year based on a previous estimate that 50,000 properties were subject to tenancy fraud and therefore not available to other tenants. This was calculated using the National Fraud Authority model which states that the main direct cost comes from the need to place homeless families in temporary accommodation. This is approximately five times the annual loss due to housing benefit fraud.
27. Due to the value of property the prevalence of this type of fraud is more significant in London and the amount detected is equivalent to 0.45 per cent of the total London council housing stock. This compares to 0.05 per cent in Yorkshire and Humber.
28. The council has a unit who are involved in the recovery of properties where tenancy fraud is detected. Internal Audit has examined the processes undertaken by this unit as part of its 2014/15 work programme on proactive fraud investigation. The audit found that the service had sound principles and processes in places.
29. The PPP report highlights the need for councils to co-operate on this issue, so that information is passed between all social housing providers in an area.
30. In 2013, the government passed legislation that criminalises sub-letting fraud. On conviction, tenancy fraudster faces up to two years in prison or a fine of £50,000. The legislation allows councils to prosecute tenancy fraudsters on behalf of housing associations.
31. In 2013/14 the council recovered 16 homes (note that this was the first part year for the tenancy fraud team). No prosecutions were undertaken however.

Right to Buy

32. This type of fraud appears to be on the increase. The council has stringent processes to verify applications. It has not identified any frauds in this area, however a number of applications have been returned and subsequently not resubmitted. These have been treated as claimant error rather than as fraud. This is an area where the council is vigilant. The average for all metropolitan council's was only 1 case.

Non Benefits related fraud cases

Business rates

33. In 2013/14, councils in England and Wales contributed nearly £22 billion in non – domestic (business) rates to central government. The government distributes this money across councils. Business rate fraud includes:

- Falsely declaring mandatory or discretionary rate relief or empty property exceptions;
- Failure to declare occupancy of the property;
- Falsely claiming insolvency status to evade payment; and
- Not disclosing relevant information, for example, about the size of the company, to gain rate relief.

34. The council has in place processes to detect and prevent these types of fraud, and they are tested as part of the Internal Audit's annual reviews of the systems in this area.

35. It should be noted that in the period concerned the council did not detect and prosecute any frauds in this area. The average for other councils is less than 1 case.

Social Care (including direct payment) fraud.

36. This is another area where the council has strengthened the controls over the payments. The council's processes for controlling this expenditure have been examined and reported to the Audit Committee previously.

37. It should be noted that in the period concerned the council did not detect and prosecute any frauds in this area. The average for other councils is less than 1 case.

Procurement

38. The National Fraud Association estimates that procurement fraud costs local authorities £876 million, making it the single largest area of financial loss to fraud in local government. In 2012/13, the total value of detected fraud in England was £1.9 million. This is type of fraud is difficult to detect and investigate.

39. The Audit Commission cites a number of on-going risk areas relating to procurement and contracting, the key areas of external fraud being:

- Collusion between staff and bidders to award contracts and favourable terms
 - Collusion between bidders to agree that they will not bid competitively for a particular contract
 - Bidders purposely failing to tender in accordance with the contract and later submitting false claims for extra costs.
40. The council reported a significant attempted fraud in this area during the period. The fraud had a potential to have cost the council £561,000, although no actual payment was made to the fraudsters concerned. The fraud was a bank mandate fraud; this is where a false request is made to change the payment details of a supplier. These types of fraud are undertaken on a phishing exercise where fraudsters target a range of large bodies with requests to change bank details. Most cases are spotted early due to the checking regimes in place. This case was however entered to our systems, but was identified before a payment reached the receiving bank. The procedures have been overhauled, re-documented and the staff involved have been retrained.
41. The police were contacted via the Action Fraud site. We received confirmation from Manchester Police (the locality of the receiving bank) they stated that they had investigated this and no further action would be taken. The police have difficulty in investigating these crimes as they are so fast moving.
42. This is an area where constant vigilance is required as the criminals who undertake this activity constantly try to perfect their techniques. The council is part of the National Anti-Fraud Network (NAFN) and we receive regular updates on incidents from them, we are also part of the South and West Yorkshire investigators group and we share intelligence. We are able to warn the relevant parts of the council to be aware when fraud attempts have increased in their area in other authorities.

Other fraud types

Blue Badge fraud

43. The council did not record any blue badge frauds in the period, the council does recover a large number of badges particularly as a result for the NFI, however this is an administrative exercise rather than a fraud issue. Some badges are recovered for wrongful use and a fixed penalty issued, however these are not recorded as fraudulent by the council and do not show in the reported figures, due to the difficulty and cost in obtaining the level of evidence required to prosecute.

44. The council processes for the assessment of eligibility for badges has been reviewed and reported to the Audit Committee and action is being taken to strengthen the process to ensure that this process is as stringent as possible.

Abuse of position

45. This covers such acts as thefts by employees, timesheet fraud etc. The council has had with a number of cases in this area, which have led to officers being dismissed. This have where appropriate been reported to the police, however they have not taken action, normally as the cases do not have the evidence that meets the Crown Prosecution Services burden of proof.

Social care

46. No frauds were reported in this area for the council during the year. The audit committee have already received reports on the processes and checking involved in this area. The total number of cases for all metropolitan district councils was 61 with a value of £490,078. This is less than one case per council.

Insurance

47. No frauds were reported in this area, although as explained earlier instances of irregularity are noted during processing and claims rejected, although these have not been identified and reported as frauds because reaching the standard of proof would be too difficult. The total number of cases for all metropolitan district councils was 94 with a value of £1,248,884. This is less than one case per council.

Protecting the Public Purse Recommendations

48. The PPP report makes a number of recommendations.

All local government bodies should:

- a) use a checklist for councillors and others responsible for audit and governance (appendix to this report) to review their counter-fraud arrangements;
- b) adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud
- c) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI);

d) assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption (when this is available); and

e) engage fully with the new CIPFA Counter Fraud Centre.

Councils in particular should:

f) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud;

g) be alert to the risk of organised crime, notably in procurement;

h) be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy and social care;

i) apply the lessons from the approach encouraged by PPP to tackle housing tenancy fraud, to other types of fraud;

j) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources;

k) focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act; and

49. The council is committed to tackling all of these with the limited resources that it has available and will focus the resources on those areas of highest risk.

Checklist for those responsible for governance.

50. The Audit Commission has included a checklist within the Protecting the Public Purse report which is intended to allow those responsible for governance to assess their counter-fraud arrangements against stated good practice. Internal Audit has completed the checklist on behalf of the Audit Committee and a copy is attached at Appendix A.

51. 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. An e-learning course has been developed and made available on learning pool to assist any identified staff development requirements.

Developments in fraud investigation across the council.

52. The council remains committed to having strong controls in place in its systems to prevent fraudulent claims and to have control mechanisms to minimise their impact where they do occur. Claims of fraud are examined

and where there is evidence, they are investigated in line with the council's due processes. Whilst resources are increasingly under pressure, it is a key requirement that losses through fraud are minimised and monies recovered to support front line services.

53. There have been significant changes brought about during the year regarding fraud investigations within the council.

Protecting the Public Purse.

54. It has been confirmed that the current protecting the public purse report produced by the Audit Commission will be the last. Some elements of the work are to be taken on by the Cabinet Office; however this is not one of them. The Chartered Institute of Public Financial Accountants (CIPFA) has taken on the role of Establishing a Centre for Counter Fraud. It is intended that they will undertake a similar exercise to the PPP although no details are available as yet. The centre will also be involved in training and pushing best practice for fraud investigation.

Introduction of the Single Fraud Investigations Service (SFIS).

55. The Department for Works and Pensions (DWP) have over the last year been rolling out SFIS across all local authorities. The DWP will take on directly the investigation of all fraud claims related to housing benefit.
56. The staff undertaking the investigation of housing benefits in Sheffield were employed by Capita. These 10 officers were transferred from Capita to DWP at the beginning of February 2015. The number of qualified investigators available to the council has therefore significantly reduced, and as a result the number and value of fraud cases investigated by the council directly will also significantly diminish. In the current year the number of cases was reduced as some cases were passed directly to the DWP at an earlier stage. No cases were investigated by the council from December 2014.
57. The staff undertaking the investigations at DWP will not have access to the council's systems used to process housing benefits claims. The DWP require that the council has a Single Point of Contact (SPoC) which will be responsible for reporting through potential fraudulent claims identified during processing and also for the co-ordination of the response to requests for information received from the DWP. The benefits service management within the council have signed up to a draft service level agreement with the DWP to provide this information within agreed timescales. Capita have been contracted to provide the SPoC, and the benefits client management team in the council are responsible for monitoring this agreement.

58. Any issues of suspected housing benefits fraud received from the public, members or staff are channelled directly to the DWP.

Application for the Counter Fraud Fund.

59. The Government in the summer of 2014 announced a counter fraud fund of £16 million, for which councils had to put forward bidding proposals. This was intended to be pump priming for on-going fraud work.
60. Sheffield Council put forward a bid totalling £191,000 over 2 years to develop a central team and to provide professional training and support to a wider range of managers across the council who are involved in investigations. This would have expanded the central resource by two individuals and would have allowed the team to undertake additional proactive and reactive work across the council.
61. Although supported by both officers and the cabinet member for finance, the council was unsuccessful in its bid and therefore this development has not taken place. It has been noted that many other councils have been developing a central team to deal with all of the investigations of the council to ensure that there is a professional and consistent approach.

Fraud Investigation plans going forward.

62. As part of the 2015/16 plan for Internal Audit will be reviewing the investigations processes across the council to ensure that they meet the current requirements. This will look, at in particular, management investigations to ensure that all potential fraud cases are being appropriately recorded and reported. It will also ensure that there is a consistency of approach to investigation.
63. The annual audit plan currently has four areas identified for counter fraud work. These are areas of known risk and the reviews examine these fraud risks to ensure that the council's exposure is minimised as far as possible.

Training and Staff Development.

64. With the transfer of Staff to DWP the number of trained fraud investigators has diminished within the council. It has been agreed by the finance leadership to fund the training of two current members of Internal Audit to CIPFA's Accredited Counter Fraud Specialist (CACFS) from within the current training budget. This training will take place over the summer of 2015. This will ensure that the council has the required coverage in this area.

Recommendations

65. That the Audit Committee notes the content of this report.
66. That the Audit Committee notes the completed checklist for those responsible for governance (Appendix A).

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