

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>COMMITTEE: Joint Audit and Standards Committee</b>	<b>REPORT NUMBER: JAC/18/19</b>
<b>FROM: John Snell – Corporate Manager – Internal Audit</b>	<b>DATE OF MEETING: 11<sup>th</sup> March 2019</b>

### MANAGING THE RISK OF FRAUD AND CORRUPTION ANNUAL REPORT 2018/19

#### 1. PURPOSE OF REPORT

- 1.1 This report explains the current arrangements in place across both Councils to ensure there is a pro-active corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.

#### 2. OPTIONS CONSIDERED

- 2.1 Internal Audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within an organisation. This is part of its normal role of supporting the management and the Joint Audit and Standards Committee oversight of risk management. However, it is not the job of Internal Audit directly to detect or prevent corrupt practices. This is for management. Internal Audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems and advising on change where it is needed.

#### 3. RECOMMENDATIONS

- 3.1 That the contents of this report detailing the progress made in ensuring there are effective arrangements and measures in place across both Councils to minimise the risk of fraud and corruption be noted.

#### REASON FOR DECISION

Anti-fraud and corruption work form an important part of the Councils' corporate governance and internal control framework.

#### 4. KEY INFORMATION

- 4.1 This report shows those responsible for governance how both Councils are looking to fight fraud and corruption more effectively. It brings together in one document a summary of the outcomes of our work to deter, prevent and detect fraud and corruption over the last 12 months.
- 4.2 Although both Councils have traditionally encountered low levels of fraud and corruption, the risk of such losses both internally and externally is fully recognised as part of each Council's operations that need to be managed proactively and effectively.

### **Levels of officer responsibility**

- 4.3 The Corporate Manager – Internal Audit is responsible for the development and maintenance of a Prevention of Financial Crime Policy and ensuring that Councillors and staff are aware of its content; and ensuring that there is a pro-active approach to fraud prevention, detection and investigation and promotes a council wide anti-fraud culture across both Councils.
- 4.4 Internal Audit will support management by advising on controls to prevent and detect fraud and help build anti-fraud awareness amongst staff. However, ownership of fraud lies in the directorates, and not Internal Audit.

### **Internal Audit**

- 4.5 Fraud and corruption risks are identified as part of the annual planning process and contributes to the overall formation of audit coverage. Under the Public Sector Internal Audit Standards (PSIAS) we consider aspects of fraud risk in planning all audits.
- 4.6 Whilst it is not a primary role of an Internal Audit function to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud, and where necessary investigating the causes of fraud and responding to whistleblowing allegations.
- 4.7 The annual Audit Plan has an allowance for Internal Audit to undertake irregularity investigations, National Fraud Initiative (NFI) related work, and proactive anti-fraud and corruption work. This is at a level deemed proportionate to the identified risk of fraud within the Councils and is supported by senior management.

### **Fraud Risk Register**

- 4.8 Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively.
- 4.9 Internal Audit has produced a Fraud Risk Register, which contains a list of areas where Internal Audit and Corporate Managers believe the Councils are susceptible to fraud. The register enables the Councils to focus on suitable internal controls to mitigate any subsequent risk. As mentioned earlier, the register also influences the audit planning process.

### **Policies and Procedures**

- 4.10 The Councils are committed to ensuring that the opportunity for fraud and corruption is minimised, which is supported by the Prevention of Financial Crime Policy.

### **Pro-active Anti-Fraud Work**

#### *Raising awareness*

- 4.11 Work continues on raising fraud awareness across both Councils and includes:
- Alerting staff of National Fraud Bulletins and ensuring that related internal controls are present and operating effectively.

- Subscription to the National Anti-Fraud Network, which provides proactive intelligence of potential fraud and error risks.
- Reminder to Councillors and staff on their responsibilities around gifts and hospitalities. This area has also been subject to an audit, the results of which will be reported in the Annual Internal Audit report 2018/19 in July 2109 to this Committee.
- The recently developed corporate 'Values' was used as an opportunity to remind staff of the Councils' Whistleblowing arrangements and how we as an organisation want to create an open and supportive culture, where staff feel comfortable in raising concerns when they feel something is wrong without fear of the consequences.
- The Council, through the Shared Revenues Partnership, continue to give out a strong message about fraud in both publicly issued and internal documents regarding Council Tax and Housing Benefit claim forms.
- Fair Processing Notices, which inform the public that we will use their data for the prevention and detection of crime, have been updated as part of the General Data Protection Regulations (GDPR).
- Attendance of Fraud and Corruption conferences where speakers from the public sector are invited to talk about current topics.

4.12 Both Councils are committed to being open and transparent. The Communities and Local Authorities (CLG) Code of Recommended Practice for Local Authorities on Data Transparency has set out data publishing requirements on Local Authorities. This includes publishing information on each Council's counter fraud work.

#### *Benefit Fraud*

4.13 From May 2015 all suspected Housing Benefit fraud cases are referred to the Department for Works and Pensions (DWP) within the 'Single Fraud Investigation Service' (SFIS) team.

#### *Fraud update from the Shared Revenues Partnership (SRP)*

4.14 The SRP apply a Risk Based Verification (RBV) approach to Housing Benefit claims. RBV assigns a risk rating to each claim which determines the level of verification required. It allows more intense verification activity to be targeted at those claims which are deemed to be at highest risk of involving fraud and/or error.

4.15 Every new benefit claim is cross referenced via a central database to ensure that the customer is not claiming benefit anywhere else or is a household member in anyone else's claim; it cross references National Insurance Numbers to ensure that it is not being used by another person; checks the electoral role and if deemed to be a high risk will carry out a credit reference agency check so that the Benefit Assessor can decide if a claim is ready to be processed or make a referral for potential fraud.

4.16 The SRP secured funding from Suffolk County Council to carry out a monthly review of single resident discount during 2018/19. Although work continues on the monthly review, the current number of discounts removed and the value of debt created since April 2018 is shown below:

	Number Removed	Value for 2017/18
Babergh	215	£78,153
Mid Suffolk	242	£89,089

In conjunction with the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) we use the Real Time Information (RTI) and Verify Earnings and Pensions (VEP) service to ensure our data in respect of Housing Benefit claimants is up to date. Between February 2018 and January 2019 using RTI matching SRP identified £186,369 worth of overpayments for Babergh (485 cases) and £185,751 worth of overpayments for Mid Suffolk (467 cases). Using the data received via VEP alerts SRP have identified £52,373 worth of overpayments for Babergh (143 cases) for the period 29 August 2018 to January 2019 and £22,945 worth of overpayments for Mid Suffolk (119 cases). These cases are classified as 'claimant error' for which the councils receive 40% subsidy back from Central Government. The Councils are also entitled to recover the overpayment of benefit through clawback from existing claimants or through invoice payment arrangements where they are no longer claiming.

- 4.17 The DWP allocated Local Authorities (LAs) funding as part of the drive to reduce Housing Benefit (HB) fraud and error in addition to the HB administration subsidy to target key areas of fraud and error. The funding was allocated to enable LAs to review their self-employed caseload where no change to self-employed income (or that of partner) had occurred in the last 12 months.

This exercise was carried out in two stages, stage 1 results are as follows;

#### **BDC**

- 36 cases reviewed
- Failed to respond to requests for information/No Longer qualified after assessment = 7
- Increase in self-employed income = 8 cases
- Decrease in self-employed income = 11 cases
- No longer self-employed = 2 cases
- Failed to respond so high self-employed income assumed = 3 cases
- No change in self-employed income = 5 cases

#### **MSDC**

- 25 cases reviewed
- Failed to respond to requests for information/No Longer qualified after assessment = 5 cases
- Increase in self-employed income = 10 cases
- Decrease in self-employed income = 2 cases
- No longer self-employed = 3 cases
- Failed to respond so high self-employed income assumed = 3 cases
- No change in self-employed income = 2 cases

Although there are a number of cases with increased self-employed income, some were very minimal and did not necessarily result in a reduction in HB/CTR. This is an ongoing project; stage 2 results are still being collated.

### *National Fraud Initiative (NFI)*

- 4.18 The NFI is an exercise that matches electronic data held within, and between public and private sector bodies to prevent and detect fraud. All mandatory participants, including Councils, must provide data for matching with other local government organisations.
- 4.19 The NFI exercise takes place every two years, with the latest main data extraction being completed in October 2018, as part of the 2018/19 exercise. The Election and Single Discount Council tax data upload being completed in December 2018.
- 4.20 Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across service areas to support staff in providing data and subsequently investigating and recording the results of matches. Resource levels do not allow all NFI matches to be investigated and an assessment of those that appear to be of a higher risk for examination must be carried out.
- 4.21 Work has started on reviewing the 2018/19 recommended matches. The exercise identified 628 matches, of which 211 are classified as High Risk for Babergh and 637, of which 184 are classified as High Risk for Mid Suffolk.

### *Housing tenancy fraud investigations*

- 4.22 Since April 2018 Community Housing Officers have investigated 19 cases suspected of housing related fraud (12 in Babergh and 7 in Mid Suffolk). These have come about as the result of complaints, intelligence gathered by Community Housing Officers, or following other work undertaken by the Tenant Services team (e.g. welfare checks, empty or unkept properties).
- 4.23 The results are summarised below:

Fraud Type	Results of Investigation	2017/18		2018/19	
		Babergh No. of cases	Mid Suffolk No. of cases	Babergh No. of cases	Mid Suffolk No. of cases
Abandonment	Resolved informally/not founded	0	0	5	1
	Notice to Quit served – tenant	0	0	1	0
	Notice to Quit – Property recovered	0	0	0	1
	Open case subject to ongoing investigations	0	0	1	0

Fraud Type	Results of Investigation	2017/18		2018/19	
		Babergh No. of cases	Mid Suffolk No. of cases	Babergh No. of cases	Mid Suffolk No. of cases
<b>Totals</b>		<b>0</b>	<b>0</b>	<b>7</b>	<b>2</b>
Not using property as only or principle home	Resolved informally/not founded	5	5	3	2
	Serving of Notice to Quit and possession of property	0	1	-	-
	Open case subject to ongoing investigations	0	0	2	1
<b>Total</b>		<b>5</b>	<b>6</b>	<b>5</b>	<b>3</b>
Illegal occupation	Property recovered following Notice to Quit			0	1
	Tenancy ended following Notice to Quit served from the tenant. Further Notice to Quit on illegal occupier left in the property			0	1
	Not founded – case closed	0	1	0	0
<b>Total</b>		<b>0</b>	<b>1</b>	<b>0</b>	<b>2</b>
<b>Grand Totals</b>		<b>5</b>	<b>7</b>	<b>12</b>	<b>7</b>

4.25 A member of the public wrote in expressing concerns of a possible ‘contrived tenancy’. Internal Audit examined the documentation and spoke with the key housing officers involved in the occupancy of the property in question. In conclusion, Internal Audit were satisfied that the occupancy was lawful and that ‘due diligence’ checks were performed to support the decision-making process.

*Right to Buy (RTB)*

4.26 RTB statistics for BMSDC 2016 to 2018

	2017/18		2018/19	
	Babergh	Mid Suffolk	Babergh	Mid Suffolk
Number of applications received	51	42	34	34
Number of applications approved	31	26	22	17
Number of applications withdrawn/refused *	20	16	12	17

\* Reasons for applications being withdrawn/denied include:

Reason for withdrawal/denied	2017/18		2018/19	
	Babergh	Mid Suffolk	Babergh	Mid Suffolk
Arrangement with Creditors	2	-	-	1
Property suitable for elderly people	-	-	-	1
Notice to Seek Possession	1	-	-	-
Debt Relief Order in place	-	-	-	1
No response to the Offer Notice	11	3	2	2
Withdrawn after Offer Notice sent	-	-	1	4
Reason unknown	3	9	-	1
Unable to get a mortgage	-	-	-	-
Change in circumstances	1	-	1	1
Did not arrange 'due diligence' meeting	1	2	6	3
Health problems	-	-	1	-
Potential fraud **	-	1	-	-
Detected tenancy fraud	-	-	-	-
Tenant delayed the process	1	-	1	-

Reason for withdrawal/denied	2017/18		2018/19	
	Babergh	Mid Suffolk	Babergh	Mid Suffolk
Applicant to reapply when discount higher	-	1	-	-
Property in need of repairs	-	-	-	2
Tenant passed away	-	-	-	1
<b>Total</b>	<b>20</b>	<b>16</b>	<b>12</b>	<b>17</b>

\*\*The Money Laundering Reporting Officer (MLRO) reported this case to the National Criminal Intelligence Service.

#### *Probity audit*

- 4.27 An audit was undertaken on gifts and hospitality and declaration of interests to seek assurances that the arrangements in place for the acceptance of gifts and hospitality and the reporting and evaluation of interests are sound. The results of the audit will be reported in the Annual Internal Audit Report 2018/19 to this Committee in July 2019.
- 4.28 Internal Audit recently worked with the Ipswich Borough Council Fraud Team to investigate a Babergh Council Tax Reduction Scheme claim. The investigation identified that the claimant was not entitled to CTRS from September 2015. As a result, the CTR claim was cancelled back to September 2015 and an overpayment created, resulting in a re-bill of over £2k to Babergh District Council.

#### *Conclusions*

- 4.29 The Councils remain committed to providing services carried out in accordance with the highest ethical standards and takes steps to investigate all concerns arising.

#### *Looking ahead*

- 4.30 Some areas where a focus can be expected for 2019/20 are as follows:
- Continue ongoing NFI exercise;
  - Supporting both Councils to improve levels of awareness of fraud risks amongst staff;
  - Work with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures

## **5. LINKS TO JOINT STRATEGIC PLAN**

- 5.1 Work undertaken to reduce fraud and enhance the Councils' anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

## 6. FINANCIAL IMPLICATIONS

- 6.1 Whilst there are no direct implications arising from this report there are potential resource implications concerning anti-fraud and corruption issues. Any implications arising from the need to introduce additional controls and mitigations will be addressed with management. The emphasis always will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

## 7. LEGAL IMPLICATIONS

- 7.1 There are no legal implications arising from these proposals.

## 8. RISK MANAGEMENT

- 8.1 This report is most closely linked with the Council's Significant Business Risk No. 5f – The Council may be perceived to be untrustworthy and have a poor reputation. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If robust anti-fraud and corruption arrangements are not in place this could affect the achievement of the Councils' strategic aims and priorities, key projects, the delivery of services and its reputation.	Unlikely (2)	Bad (3)	<p>The risk of fraud and corruption in relation to each Councils' activities is taken into consideration both as part of each Councils' approach to risk management and also in the development of the annual Internal Audit Plan. In practice, each Councils' mitigating controls include clear policies and procedures available to all staff and Councillors; Internal Audit who investigate potential areas of fraud and corruption; the bi-annual participation in the National Fraud Initiative; and a sound internal control environment – as demonstrated by internal and external audit opinions and the Annual Governance Statement.</p> <p>The production of an annual report helps mitigate its reputational risk by providing assurance to stakeholders on how the risks are managed.</p>

## 9. CONSULTATIONS

- 9.1 During preparation this report has been shared with both Chairs of the Joint Audit and Standards Committee; Cabinet Lead Members for Organisational Delivery; the Section 151 Officer; the Assistant Director, Law and Governance and Monitoring Officer; and Legal. Any comments received have been incorporated in the report.

## **10. EQUALITY ANALYSIS**

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

## **11. ENVIRONMENTAL IMPLICATIONS**

11.1 There are no environmental implications arising from this report.