

Annual Counter Fraud Report 2022/23

29th November 2023

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1. Background

- 1.1 In common with other public bodies, the Council has a duty to protect the public purse. The purpose of this report is to update the Audit Committee on national and local fraud issues that arose during 2022/23, and in particular, the role played by Birmingham Audit in the investigation, prevention and detection of fraud.
- 1.2 The standards of governance required within the public sector are understandably high and controls within systems must be effective to minimise the risk of fraud and error. However, compliance with these controls can sometimes be an issue. During a period of change, internal controls can become unstable and ineffective and so it is important that any increased risk of fraud is identified and appropriately managed. Birmingham Audit is tasked with the investigation of suspected fraud and error and the identification of any system or procedural issues that allow such incidents to occur. We identify how fraud or other irregularity has been committed and make recommendations to senior management to address weaknesses in controls to reduce the chance of recurrence in the future. We also assist management in taking action against those found to have perpetrated fraud and in the recovery of any losses.
- 1.3 There remains a high level of interest in fraud nationally. This is fuelled in part by publicity around new and emerging fraud risks and the necessity to make scarce resources go as far as possible. Birmingham Audit is therefore continually looking to enhance its counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

2. Audit Committee

- 2.1 The Audit Committee has shown a keen interest in, and been supportive of, both proactive and reactive work within the Council to reduce levels of fraud and error. We regularly report on counter-fraud activity as part of our overall reporting on the work of the Audit service. The Committee share the view that prevention, detection, and deterrence are all important and have probed what actions management can take to prevent fraud entering the systems in the first instance.

3. Resources for Counter Fraud Work

- 3.1 The Corporate Fraud Team (CFT) is a dedicated counter-fraud team within Birmingham Audit and is responsible for the investigation of suspected financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The team identify how fraud or other irregularity has been committed and make recommendations to senior management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. In addition, where criminal activity has been committed, the team will consider instituting criminal proceedings or may refer the matter to the police and will help to seek redress from the perpetrators. The team will also investigate any issues of procedural non-compliance that may have a financial or reputational impact on the Council.
- 3.2 In addition to tackling financial irregularities, CFT also has a small team dedicated to preventing, detecting, and investigating application fraud, primarily relating to Social Housing and Council Tax. An intelligence and data analytics hub also support the work of the team and will bring together information from various Council systems to proactively identify possible issues for investigation, as well as building intelligence packages following referrals received from Housing, members of the public, the police or other sources.
- 3.3 Since October 2021, the Corporate Fraud Team has benefitted from having an Accredited Financial Investigator with powers to obtain banking information and investigate money laundering offences contrary to the Proceeds of Crime Act 2002. This has increased the ability of the team to investigate cases where funds have been transferred out of the authority and to recover the proceeds of crime wherever possible, using tools such as property restraining orders and account freezing orders. This is becoming a key area of our work, particularly with the emergence of more sophisticated frauds and scams. Three members of the Application Fraud Team have also completed their training as Financial Intelligence Officers to increase that capability further.
- 3.4 In recent years we have re-prioritised our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try to identify and stop fraud and error. This has largely been achieved by enhancing our fraud monitoring capability to extract data from Council systems and develop analytical tests designed to detect fraud and error by flagging up any unusual patterns in transactions for further interrogation and investigation. This also helps to inform the routine audit assurance work in these key financial systems. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

4. Raising Awareness

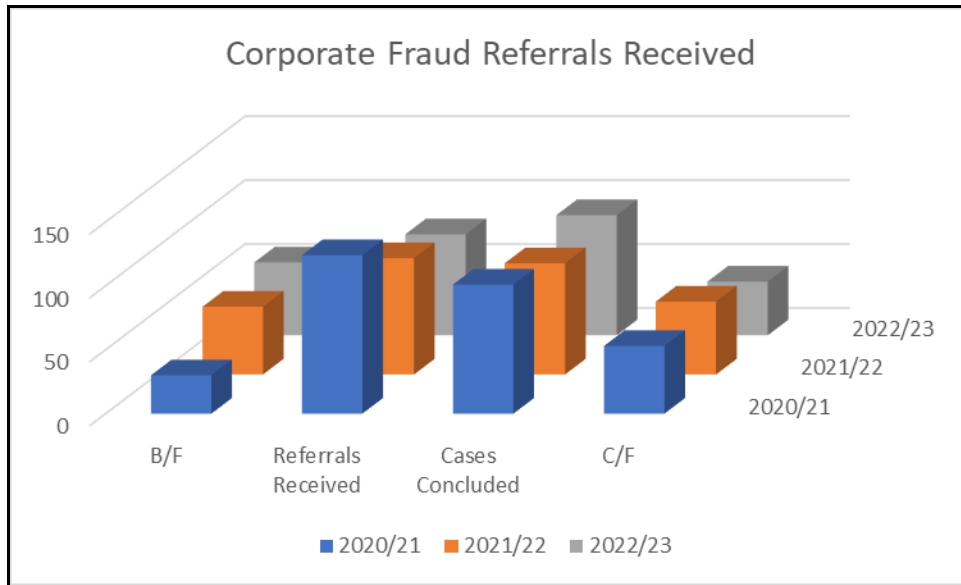
- 4.1 The overall stance on fraud by the Council is set by our Anti-Fraud and Corruption Policy, Fraud and Corruption Response Plan and the Whistleblowing Code. Adopting a strategic response that commits to tackling fraud at all levels within the organisation, fits in line with the principles of good governance.
- 4.2 As part of our work in raising awareness of fraud throughout the Council, we produce Fraud Spotlight, a bi-annual fraud bulletin covering topical fraud related issues. This is circulated throughout the Council via the intranet, and a school specific version is distributed to all schools via the Schools Noticeboard. We also periodically issue alerts whenever we become aware of a fraud threat in a particular area, and review and revise corporate policies and procedures to respond to particular issues. We continue to explore the use of other media to help raise awareness of fraud, as well as participating in local counter fraud networks to exchange examples of best practice and share intelligence on emerging threats.
- 4.3 In November 2021, we launched a 'Focus on Fraud Awareness' e-learning package to all Council staff, to raise awareness of the types of frauds that they may encounter through their work. In June 2022, we further launched a school-specific version of the e-learning tool. It is hoped that by raising awareness of the latest threats and trends in the fraud arena, and by highlighting some typical red flags, staff will be more vigilant and proactive in preventing fraud from occurring. Whilst we have been unable to mandate that staff must undertake the e-learning module, we have recommended it to all Directorates and schools, and have had positive feedback on its uptake.
- 4.4 We continue to work closely with the City Housing Directorate to ensure that staff involved in dealing with housing applications and tenancy issues are aware of the risks of fraud in this area. We have also established a good working relationship with Revenues & Benefits in tackling Council Tax related fraud and dealing with any associated benefit issues which may arise from our investigations.

5. Levels of Fraud

- 5.1 It is difficult to measure the level of fraud against the Council. Not all fraud is formally reported; some will go undetected, and some will be prevented. In some cases, it is difficult to quantify a value. Similarly, some losses can be attributed to error, misinterpretation or poor management. A good example of this is contract management, where contractors seek to maximise their profits by exploring potential loopholes within contracts, or where a procurement process has been intentionally circumvented, resulting in items being supplied but not necessarily at the best price. The level of identified fraud in any particular year can vary significantly, depending on the nature and outcome of the cases investigated.

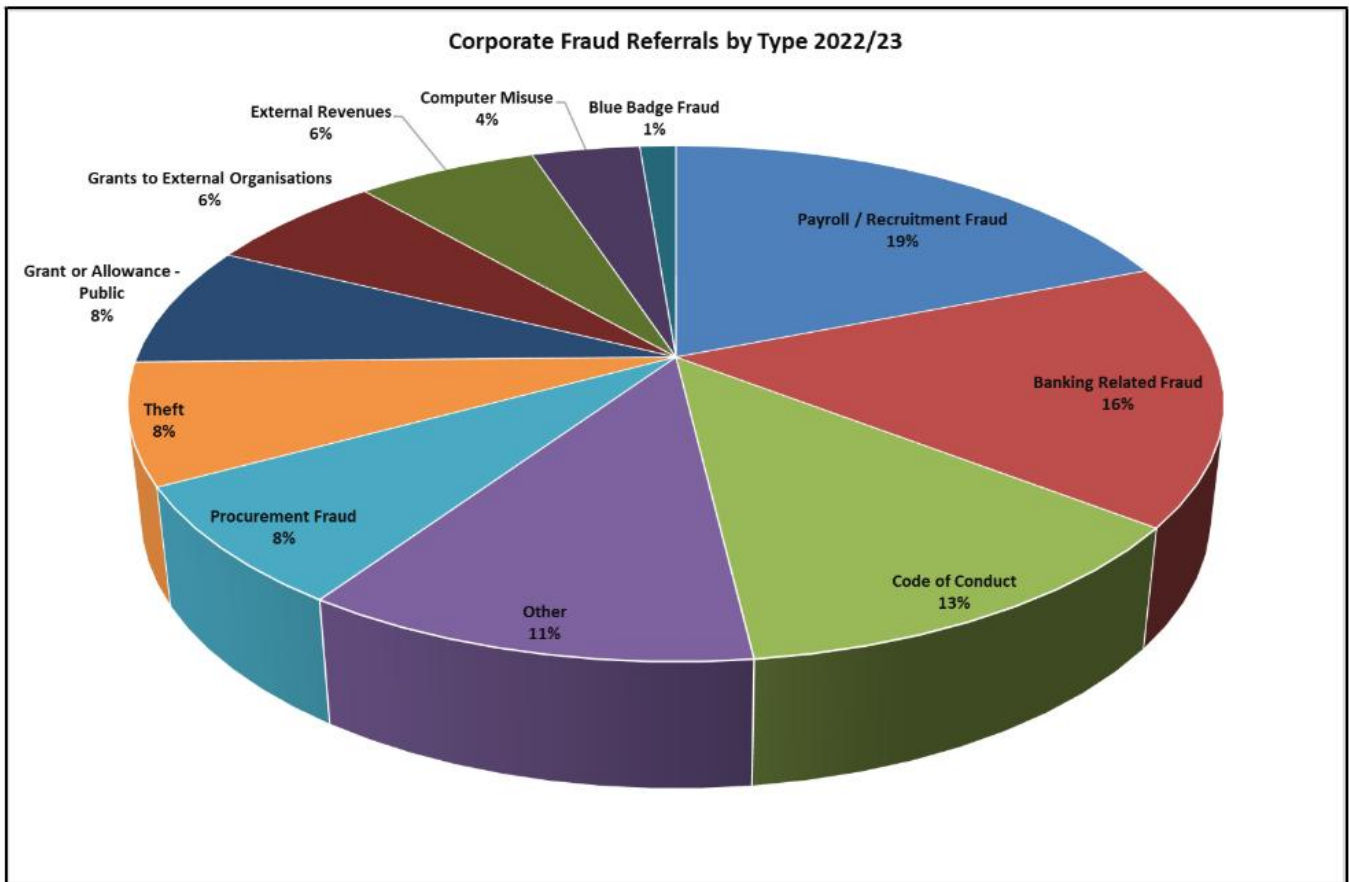
- 5.2 Fraud is estimated to account for 40% of all crime committed across the UK and is a long-standing threat to public services. The Public Sector Fraud Authority estimates that a minimum of £33bn per year is currently lost to fraud and error across the public sector. During the COVID-19 pandemic, criminals further targeted public sector resources, which saw additional losses in the region of £13bn.
- 5.3 It is difficult to place a monetary value on our anti-fraud activity during 2022/23, particularly in terms of our work in relation to prevention and deterrence. Some quantifiable losses that are identified through investigation may be recovered, and work on the associated system issues may prevent and deter further losses. During 2022/23, the level of fraud/error investigated by CFT contained a notional value totalling just over £365,000 (£964,000 in 2021/22 and £256,000 in 2020/21). This figure excludes application-based fraud (Social Housing and Council Tax) which is covered in Section 6 of this report.
- 5.4 During 2022/23, CFT received information in respect of 79 potential irregularities (91 in 2021/22 and 124 in 2020/21) from a variety of sources. Referrals can cover a wide range of issues, some of which lead to major investigations requiring significant resources, whilst others may be referred to the directorates to deal with locally. The Council's Financial Regulations place a responsibility on all employees to report suspicions of financial irregularity, and the revamped whistleblowing procedures have encouraged more staff to make disclosures. We regularly liaise with Legal Services to discuss the progress on those whistleblowing cases that are referred to us for investigation. We also receive information from various external sources, including members of the public, using our online fraud reporting form. Additional referrals may arise when we raise awareness of a particular issue, or when we identify a specific concern through data matching exercises such as the National Fraud Initiative (NFI). During the year we received several referrals concerning potential breaches of the Staff Code of Conduct, which may not necessarily constitute fraud, but can nevertheless pose a potentially significant risk to the Council's reputation.
- 5.5 The table below summarises the reactive investigations activity of CFT (excluding Application Fraud) during the year:

	2020/21	2021/22	2022/23
Number of outstanding investigations at the beginning of the year	30	53	57
Number of fraud referrals received during the year	124	91	79
Number of cases concluded during the year	101	87	94
Number of investigations outstanding at the end of the year	53	57	42



The referrals can be categorised by fraud type as follows:

FRAUD TYPE	REFERRALS RECEIVED 2022/23	Percentage of Total
Payroll/Recruitment Related Fraud, i.e. salary overpayments, false absenteeism, dual working, overclaimed hours, false employment history	15	19%
Banking Related Fraud, i.e. payment diversion, cheques	13	16%
Employee Code of Conduct	10	13%
Other	9	11%
Procurement Related Fraud, i.e. purchasing, contracts, creditor payments	6	8%
Theft	6	8%
Grant or Allowance - Public, i.e. Social Care Direct Payments	6	8%
Grants to External Organisations, i.e. support through grants, loans	5	6%
External Revenues Related, i.e. Business Rates, Penalty Charge Notices	5	6%
Computer Misuse, i.e. password sharing, unauthorised systems access	3	4%
Blue Badge Fraud	1	1%
Total	79	



The referrals can be categorised by service area¹ as follows:

SERVICE AREA	NO. OF REFERRALS
Children & Families	30
City Operations	14
Adults Social Care	11
City Housing	11
Place, Prosperity & Sustainability	6
Council Management	6
Birmingham Children's Trust	1
TOTAL	79

¹ Based on Directorate structure at the time of reporting



- 5.6 Each referral is assessed, and a decision made as to whether an audit investigation is necessary or whether the matter is best left to local management to deal with. This enables us to concentrate our resources on the most urgent or high-profile cases. The split between different types of referral in any year can be affected by a number of factors, such as a particular proactive fraud exercise, fraud awareness initiative or corporate action. Some of the issues that are referred to us are not necessarily fraud, such as those involving computer misuse or breaches of the Employee Code of Conduct, but nonetheless, any procedural non-compliance can lead to fraud being committed and therefore we ensure these matters are investigated and dealt with appropriately.
- 5.7 During the year, we have continued to receive referrals relating to payroll overpayments. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been considered. This is particularly in respect of any Code of Conduct issues, where it is established that the employee has failed in their duty to report the fact that they were being overpaid, or where managers have been negligent in their responsibility to update payroll or HR systems. In respect of individuals who have left the organisation and have been overpaid, we have been liaising with Payroll, HR and Accounts Receivable to improve the process for seeking swift recovery of the funds, assisting with our financial investigation powers, where necessary.

- 5.8 Following the COVID Pandemic we received numerous reports of suspicious applications for business support grants. A number of those were investigated and closed with appropriate outcomes, including the recovery of some of the funds. For the most serious cases, files have been passed to Legal Services and criminal proceedings have been commenced against the alleged perpetrators.

In March 2023, an individual appeared at Birmingham Crown Court where he entered not guilty pleas to 18 fraud offences and 1 money laundering offence, following an investigation into a number of suspected fraudulent Covid-19 Business Support Grants. The investigation also found that the individual is suspected to have falsified a number of business entities in order to avoid payment of Business Rates to the City. The total value of the fraud is believed to be in the region of £300,000. Some remaining funds from the Covid-19 grants have been restrained in his bank account and he is due to stand trial in January 2025.

- 5.9 During the year we have received details of four attempted payment diversions, one of which was unfortunately successful. In all four cases, fraudsters attempted to impersonate employees of schools to get bank details changed for payroll purposes. In the case of the successful diversion, a new employee at a school responded to an email that she thought came from her headteacher, asking for computer login information. One month's salary of approximately £1,400 was lost before the fraud was detected and any further payments were stopped. There has been a national increase in the number of instances and sophistication of this type of fraud, but fortunately we have recorded zero attempts to divert funds in relation to supplier payments, which previously was an area of concern and had resulted in some much larger frauds. We believe that a strengthening of the process for changing bank details for suppliers has contributed to this significant improvement.
- 5.10 This year saw five reports of school purchase cards being hit with fraudulent transactions over the Christmas period. The suspicious transactions were picked up by the Purchase Card Team and were reported to the bank who refunded the transactions and conducted their own investigations. We also received two reports of schools having cheque payments intercepted, the cheques doctored to change the amounts and payee details and then the cheques cashed. One of the cheques was intended as a donation to charity following a collection in school. We have been liaising with Royal Mail and the Police, who are conducting an investigation into suspected mail thefts.

An investigation concluded this year found that a school employee in a position of trust had misappropriated cash payments from parents intended for extra-curricular activities. The theft had taken place over a period of time and from analysing documents and computer records, we were able to calculate a loss of just over £14,700. The member of staff resigned with immediate effect upon being notified of the investigation and has since agreed with the school to make an immediate repayment of a proportion of the funds.

- 5.11 We have continued to see social care related frauds reported to us. These were mainly in respect of Direct Payments and were reported to us either by members of the public or Adults Social Care staff. In one case, it was reported that a relative of a service user failed to notify Social Services of the death of the service user and continued to claim Direct Payments for their care. Investigations are ongoing for some of these cases, with a view to bringing criminal proceedings against the suspects. We continue to work with the Directorate in ensuring that a more robust approach is taken to tackling potential fraud in this area.
- 5.12 We have continued to try to enhance our capability in the use of data analytics and now periodically run reports from some of the main Council systems to proactively identify potential fraud and error. This year, we have looked at patterns of attendance on the Borer time recording system, purchase card expenditure, activity and dormant activity on systems. These projects not only help to detect fraud and error, but also highlight areas of poor practice and procedural non-compliance. Through our liaison with other local authorities and professional bodies, we continually look to identify emerging fraud risks for inclusion in our programme of proactive work.
- 5.13 In any investigation conducted, the team seek to identify how fraud or other irregularity has been committed and make recommendations to senior management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of reoccurrence in the future. In carrying out our investigations, we have regard to the various outcomes available, whether this is internal disciplinary action against a Council employee, recovery of any funds, or considering instigating criminal proceedings. We continue to work with Human Resources and Legal Services colleagues to ensure the best outcome for the Council.

6. Application Fraud

6.1 Social Housing and Council Tax are both regarded nationally as being high risk areas for fraud within local government. The CIPFA Fraud & Corruption Tracker estimated that in 2019/20, the value of Social Housing fraud across the UK was £122.4m (£135.6m 2018/19) and Council Tax related fraud was £35.9m (£30.6m in 2018/19). As such, both areas remain a high priority for Birmingham Audit and so we have dedicated resources for tackling application-based fraud.

Social Housing Fraud

6.2 During the year, we have continued to work closely with the City Housing Directorate, to investigate and remedy all aspects of social housing fraud, including illegal sub-letting, non-residency, false applications and concerns about Right to Buy. We also continue to provide support in the use of the Data Warehouse to help them verify details submitted on housing / homeless / Right to Buy applications. Our primary objectives have always been:

- a) to recover social housing properties where investigations find that they are not being used as intended; and
- b) to protect the gateway for social housing by preventing fraudulent applications entering the system.

6.3 We continue to receive a high number of notifications relating to potential social housing fraud. Through our investigations, we recovered 30 Council properties (22 in 2021/22 and 14 in 2020/21) with a combined indicative value of £2,790,000*. The properties recovered are returned to the housing stock to enable those with a genuine need for social housing to be provided with a home. We also cancelled 260 housing applications prior to letting (548 in 2021/22 and 591 in 2020/21), with a combined indicative value of £842,400**.

* Based on an indicative cost of £93,000 per property, source: Cabinet Office

** Based on an indicative cost of £3,240 per application, source: Cabinet Office

6.4 The Council's Prosecution & Sanctions Policy and legislation such as the Fraud Act 2006 and the Prevention of Social Housing Fraud Act 2013 can be used to prosecute offenders, whilst the Proceeds of Crime Act 2002 can be used to recover losses. Although prosecuting offenders and publicising successful convictions act as a valuable deterrent and helps raise awareness of the problem of tenancy fraud, it is a time-consuming process and is not always possible because of lack of evidence or documentation. We also support Housing in bringing civil proceedings to regain possession of properties where we have found evidence that the tenants are not using the property as their main home.

6.5 There are obvious social benefits in ensuring that only those with the greatest need are allocated social housing, but there is also a real financial saving from preventing and/or stopping social housing fraud, particularly in respect of providing temporary accommodation,

and losing valuable housing stock through fraudulent Right to Buy applications. We will continue to work with the directorate to further develop work in this area.

In September 2022, we issued a Simple Caution to an individual who submitted false NHS documentation in an attempt to secure a more favourable council house move. The applicant claimed that she had severe walking difficulties and supplied a letter supposedly from her Orthopaedic Consultant requesting that she be moved to a ground level flat. Concerns were raised about the letter after spelling errors were spotted within the text. We liaised with the NHS Counter Fraud Authority who were able to confirm that whilst it originated from a genuine document, the letter had been amended to exaggerate the medical conditions. The applicant admitted using a false instrument with the intention of inducing the Council's Housing Department into accepting it as genuine, contrary to the Forgery and Counterfeiting Act 1981 and accepted the caution. Her housing application was cancelled.

This year, we were alerted to concerns that one of our Council housing properties was being advertised for rent on the 'Airbnb' holiday letting site. We gathered evidence of the property being illegally sub-let via the website and using newly acquired powers under the Proceeds of Crime Act, we were able to identify payments being received by the tenant from customers for renting the property. The tenant has been interviewed and a case is now being compiled to pass to Legal Services to consider prosecuting for fraud offences.

Council Tax Fraud

- 6.6 Since April 2013, local authorities have been responsible for administering their own Council Tax Support schemes and need to ensure that safeguards are in place to minimise fraudulent claims. The Council Tax Reduction Schemes - Detection of Fraud & Enforcement (England) Regulations 2013 authorise the investigation of offences in relation to Council Tax Reduction Schemes, and also create offences and enable penalties to be imposed in connection with these schemes. These are reflected in our Prosecution & Sanctions Policy.
- 6.7 We continue to identify fraudulent claims for Single Person Discount, as well as for some of the various Council Tax exemptions, such as those given to students, people in residential care homes, and cases awaiting probate to be granted. As a result of this, a total of £564,261 of adjustments in Council Tax liabilities were identified (£336,703 in 2021/22 and £332,000 in 2020/21).

- 6.8 We are increasing the use of statutory penalties in addition to the requirement to re-pay incorrectly claimed exemptions and refer the more serious cases to Legal Services to consider commencing criminal proceedings. Where cases of Council Tax fraud involve Birmingham City Council employees, a report will also be made to the individual's senior management team to consider disciplinary action. By this action, we hope to reinforce the message that fraud against the Council Tax system will not be tolerated.

On 27th October 2022, an individual appeared at Birmingham Magistrates' Court where she pleaded guilty to failure to report a change in circumstances in relation to her Council Tax Reduction Benefit. Magistrates imposed a fine of £250 and ordered her to pay full prosecution costs of £1,819.40, plus a victim surcharge of £34.00 (total £2,103.40). A re-payment plan has been set up to re-pay the Council Tax that was avoided.

In November 2022, we issued a £1,000 fixed penalty notice to a resident who failed to declare a change in circumstances in relation to his Council Tax Reduction Benefit. A re-payment plan was also put in place to reimburse the Council for £3,700 in underpaid Council Tax.

In March 2023, an individual charged with a fraud offence for failing to report that she was no longer entitled to a student discount on her Council Tax, failed to appear at Birmingham Magistrates' Court. A warrant was duly issued for her arrest. The investigating officer managed to track down the individual and encouraged her to hand herself in. She later appeared before Magistrates where she pleaded guilty, was fined £200, ordered to pay costs of £500 and a victim surcharge of £80. A re-payment plan was also set up to recover the underpaid Council Tax.

7. Intelligence

- 7.1 We continue to enhance our capability by developing our data warehouse facility with the addition of more data sets, not only with Council data, but also those of our partners and neighbouring authorities. This provides us with a sophisticated data resource to enhance our intelligence function in assisting our investigations. We have extended access to the facility to a variety of frontline services across the Council, as well as to our external partners, including law enforcement agencies, where it provides a comprehensive means of verifying information to help tackle crime and disorder. In Housing, it has been embedded into their verification checks on applications and tenancy records, helping to combat social housing

fraud. It is also used by Trading Standards, Taxi-licensing and Schools Admissions. By extending access to the data warehouse, we have been able to reduce the reliance on our intelligence function to provide verification checks.

- 7.2 The development of All City Risk (ACR), which matches data contained in housing applications with other Council held data, allows us to identify potential fraud and error within 24 hours. This has been particularly effective in identifying fraudulent claims for Council Tax Single Person Discounts and fraudulent housing applications. As indicated above, the process has reduced the amount of fraud or error that requires a formal investigation, as it will have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error. Our work in this area is highly regarded nationally and we often receive enquiries from other Local Authorities wishing to establish similar schemes in their areas.

8. National Fraud Initiative (NFI)

- 8.1 The NFI is a mandatory bi-annual data-matching exercise undertaken by the Cabinet Office, which matches a variety of data across public bodies for the purpose of identifying fraud and error. The main data extract was passed to the Cabinet Office in October 2022, and the matches were returned in January 2023.
- 8.2 This latest exercise has returned just over 36,500 matches of our data against that held by other public bodies, where a potential anomaly has been identified. The Cabinet Office does not expect all of these to be checked and provides guidance on the areas that they recommend are investigated further. Whilst the matches may be an indicator of fraud or error, in most cases the match can be attributed to outdated or incorrect data, but nevertheless still needs to be checked and if necessary, records put right. Due to resourcing, we must pass the majority of these matches to the relevant service area for them to review, particularly those relating to Housing Benefit and Housing Tenancies. So far, we have processed just over 6,610 matches from the current exercise, identifying fraud and error worth £229,593, mainly in respect of Housing Benefit. A further 1,832 matches are currently under review and work will continue on the remaining matches in the coming months.
- 8.3 The Cabinet Office also use the exercise to calculate savings achieved from acting on the information provided, for example Blue Badges cancelled. Savings for the Council from this exercise so far are estimated to be £382,730.

9. Conclusions

- 9.1 Countering fraud and error remains a priority for the Council. We continue to work on reinforcing the message of 'zero tolerance' through prevention, detection and deterrence. Where fraud is identified, we will implement appropriate sanctions, including financial penalties and/or criminal prosecution.
- 9.2 As part of our investigatory work, we continue to highlight weaknesses in systems and procedures and make recommendations to assist management in addressing these issues. We therefore expect management to act decisively and implement our recommendations and if necessary, take robust action against employees who choose not to comply.
- 9.3 Whilst it is difficult to assess the Council's overall exposure to the risk of fraud and error, it is safe to say that there will always be an increased risk in those areas where systems are weak, or where controls are allowed to be circumvented. Managers must remain alert to this risk and take responsibility for assessing it within their business area by ensuring that robust procedures are in place and are followed. This is more important than ever with fewer resources available.
- 9.4 Our continued commitment to tackle Social Housing Fraud has not only delivered financial benefits to the Council, by freeing up scarce housing resources, it also provides huge social benefits by helping to ensure that these resources are allocated to those most in need.
- 9.5 Our commitment to enhancing our data analytics capability is key to identifying and stopping fraud and error by proactively identifying anomalies for further investigation.
- 9.6 The expansion of our Data Warehouse continues to provide benefits, not only in terms of detecting and preventing fraud and error, but also in the effective delivery of Council services and helping to tackle crime and disorder.
- 9.7 Our increased financial investigation capability will provide us with additional tools for investigating fraud and money laundering and tracing and recovering the proceeds of crime.
- 9.8 We will continue to work to raise awareness of general and specific risks of fraud, and to ensure that everyone knows how to report their concerns.

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