

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	Audit Committee
Report of:	Acting Assistant Director, Audit and Risk Management
Date of Meeting:	26 July 2016
Subject:	Annual Fraud Report 2015/16
Wards Affected: All	
1. Purpose of Report	
1.1	The attached report updates the Audit Committee on how the City Council has managed the risk of fraud during the period April 2015 to March 2016.
2. Recommendations	
2.1	Members note the content of this report.

2. Background

- 2.1 The annual fraud report is a standalone report to summarise how the risk of fraud is being managed by the City Council.

4. Legal and Resource Implications

- 4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

5. Risk Management and Equality Impact Assessment Issues

- 5.1 Risk management forms an important part of the internal control framework that the Council has in place.
- 5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

6. Compliance issues

- 6.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

7. Recommendations

- 7.1 Members note the content of this report.

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Birmingham City Council Birmingham Audit Annual Anti-Fraud Activity Report 2015/16

1. Introduction

In common with other public bodies the City 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 are of relevance to the City Council.

The standards of governance required within the public sector are 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. 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 management to address weaknesses in controls to reduce the chance of recurrence in the future. We need to view our performance in the context of reasonable levels of materiality.

There remains a high level of interest in fraud nationally. This is fuelled in part by the necessity to make scarce resources go as far as possible, particularly during times of austerity. Birmingham Audit are therefore continually looking to enhance its counter fraud capability and develop new and innovative ways of identifying irregularities, whether this be the result of fraud, error, or procedural non-compliance.

2. Audit Committee

The Audit Committee has shown a keen interest in, and been supportive of, both proactive and reactive work within the City Council to reduce levels of fraud. 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.

Previously, the Audit Committee have received our self-assessment of the City Council's performance in countering fraud against the Audit Commission publication 'Protecting the Public Purse'. We were able to report that the City Council is performing well against the questions on the checklist, and we have done likewise in a recent self-assessment of our performance against the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption.

3. Resources for Counter Fraud Work

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 City Council, whether this is by employees, contractors or other third parties. The team will also investigate any issues of procedural non-compliance which may have a financial or reputational impact on the City Council. A sub-team within CFT was established to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax, as well as providing an intelligence hub. The resources available for counter fraud activities have remained unchanged from 2014/15 which has allowed us to continue with both reactive and proactive investigations as well as exploring new initiatives through increased use of data analytics.

Last year we were successful in bidding for funding from the Department for Communities and Local Government (DCLG) Counter Fraud Fund to provide a continuous fraud monitoring capability to run across the City Council's main financial systems. We have worked with an external partner to develop various data matches and exception reports on the Payroll and Accounts Payable systems to identify potential anomalies. This will also help to inform the routine audit assurance work in these key financial systems. Part of the project has involved a process of knowledge transfer which will enable us to run our own reports in the future to help flag up any unusual patterns in transactions for further interrogation and investigation.

4. Raising Awareness

The overall stance on fraud by the City Council is set by our Anti-Fraud and Corruption Policy, Fraud and Corruption Response Plan, and the Whistle Blowing Code. Revisions to the first two of these were approved by the Audit Committee in 2013/14, whilst a revised Whistleblowing and Serious Misconduct Policy was launched last year.

We cannot stress enough the importance of staff following laid down policies and procedures. This helps the City Council to minimise the risk of fraud and assists in protecting staff against allegations of impropriety. We continue to see cases where staff appear to be unaware of how their actions will seem when viewed independently. As a result processes for decision making can appear to be flawed and lack transparency.

As part of our work in raising the awareness of fraud throughout the City Council we produce Fraud Spotlight, a bi-annual fraud bulletin covering topical fraud related issues. This is circulated to senior staff in all directorates, as well as to all schools and elected members. It is also published on the Birmingham Audit webpage. We also periodically issue alerts through e-Briefings whenever we become aware of a fraud threat in a particular area.

Although limitations on our resources largely preclude us from providing fraud awareness training sessions, in response to a request from Planning & Regeneration, the team last year provided awareness training to their staff on the fraud risks associated with grant

applications. This followed investigations undertaken into applications made by businesses for grant funding, which identified anomalies in the supporting documentation. We also continue to provide training for staff involved in dealing with housing applications and tenancy issues as well as offering advice and guidance. We are looking at developing an e-learning package specifically for these areas. In addition we have agreed with the Service Director for Housing Transformation to have a campaign to raise awareness of social housing fraud.

Levels of Fraud

It is difficult to measure the level of fraud. Not all fraud is formally reported and some will go undetected. 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.

A recent estimate from the UK Fraud Costs Measurement Committee (UKFCMC) puts the annual value of fraud across all sectors of the UK economy at £191 billion. This represents a massive increase on the previous estimate from the National Fraud Authority (NFA), who in 2013, put the figure at £73 billion. The UKFCMC report estimates the level of fraud against the public sector as £37.8 billion, which again represents a significant increase in the previous estimate of £20.1 billion produced by the NFA.

It is difficult to place a monetary value on our anti-fraud activity during 2015/16, particularly in terms of our activity in relation to prevention and deterrence. Some quantifiable losses which are identified through investigation may be recovered, and work on the associated system issues may prevent and deter further losses. During 2015/16, the level of fraud/error investigated by CFT totalled in excess of £0.5m. This excludes application based fraud which is covered in Section 6 of this report.

During the year CFT received information in respect of 139 potential irregularities covering a wide range of issues. This represents a slight increase on the previous year. Referrals are received from a variety of sources. The City 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 also receive information from various external sources, including members of the public. Additional referrals may arise when we raise awareness of a particular issue, such as the invoicing scams which are usually targeted at schools. Last year we received several referrals concerning breaches of data security. Whilst these cases do not constitute fraud, they nevertheless can pose a significant risk, both in terms of potential fraud and reputational risk.

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. Over the last few years we have received a high number of referrals relating to payroll overpayments as

part of an ongoing payroll cleanse within Shared Services. Failures to record absences or other events which affect pay (e.g. reduction in hours worked, accumulated long term sickness absence, maternity leave etc.) have given rise to 27 salary overpayments over £3,000, with a combined value of £207,391. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been taken.

The team identify how fraud, or other irregularity, has been committed and make recommendations to 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 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 referring the matter to the police for possible criminal action. We continue to work with Human Resources and Legal Services colleagues to ensure the best outcome for the City Council.

5. Social Housing Fraud/Council Tax Fraud

The re-prioritisation of our work in recent years to reflect those areas seen as high-risk, has seen more resources being committed to tackling Social Housing and Council Tax fraud, both of which are commonly acknowledged nationally as being high risk areas.

During the year we have continued to work closely with the Place and People Directorates, as well as local Registered Providers of social housing, to investigate and remedy the problem of housing tenancy fraud. This includes advising on records management, photo ID's, the new application system, and providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing / homeless / Right to Buy applications.

Sharing data with partner organisations has enabled us to identify duplicate tenancies, fraudulent housing applications and new addresses for tenants who left our properties with rent arrears.

We continue to enhance our capability by developing our data warehouse facility. This has allowed us to extend access to the facility to frontline housing services, where it has been embedded into their verification checks on applications. We have also extended remote access for partners, allowing them to do likewise. The extension of our data warehouse to include not only City Council data, but also the tenancy data of our partners and neighbouring authorities, has provided us with a sophisticated data resource to enhance our intelligence function. This is used extensively to support not only our own investigations, but also to assist other parts of the Council and external law enforcement agencies in tackling crime and disorder. Last year we received 894 intelligence requests.

We continue to receive a high number of notifications relating to potential Social Housing fraud, although the 900 received last year was significantly less than the 1,140 received in 2014/15. Through its investigations, the team recovered 95 City Council and Registered Provider properties (77 in 2014/15) with a combined indicative value of £8,835,000*. We

also cancelled 300 housing applications prior to letting (364 in 2014/15), with a combined indicative value of £10,800,000**, and reduced the points on a further 77 applications. We have also stopped 7 Right to Buy applications (4 in 2014/15), with a combined indicative value of £455,000***. In addition, during the course of our work, we have located former tenants owing rent totalling £95,061.

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

** Based on an indicative saving of £36,000 per application, source: Cabinet Office

*** Based on an indicative saving of £65,000 per property, source: Cabinet Office

The introduction of legislation in the form of the Prevention of Social Housing Fraud Act 2013, now provides us with additional means to prosecute offenders. A Prosecution & Sanctions Policy was approved by the Audit Committee in 2013 and we have reviewed this to make sure that it remains fit for purpose. Regrettably, our ability to take criminal action against offenders is often hindered by inadequate paperwork held within the directorates. We have raised the issue with the Service Director for Housing Transformation, and it is proposed that a nominated Housing Officer in each quadrant is given specific responsibility for supporting our investigations by locating and providing the necessary documentation. Last year we applied sanctions in five cases. One of these included the prosecution of a former City Council employee, who was found to have abused her official position to make fraudulent homeless applications, falsely securing tenancies on three properties. The employee was dismissed and recently received a three year custodial prison sentence. We have recovered the three properties and have initiated proceedings under the Proceeds of Crime Act to recover losses arising from the former employee's actions.

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. We will continue to work with the directorates to further develop work in this area.

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 which was approved by the Audit Committee in 2013 and we have reviewed this to make sure that it remains fit for purpose.

Fraud relating to the City Council's Council Tax Reduction Scheme, and other Council Tax exemptions are investigated by the team. We have encountered some legal and operational obstacles which have largely prevented us from applying sanctions against those who have committed Council Tax related fraud, so our response when fraud is identified is to ensure that the account is corrected and revised Council Tax charges are levied. However, we have recently discussed with the Revenues Section, the possibility of applying statutory penalties where it is found that someone has committed Council Tax related fraud, and have subsequently advised them of several cases where penalties need to be applied. Last year

we received 176 referrals relating to Council Tax. Our work identified fraudulent claims for exemptions such as Single Person Discounts (SPD's), of around £60,000, and Council Tax Reduction of £130,000. In addition, during the course of its work, the team identified Housing Benefit overpayments totalling £562,291.

We have taken advantage of a Flexible Data Match provided through the National Fraud Initiative (NFI) which matched Council Tax Single Person Discounts (SPD's) to the Electoral Register. A total of 8,998 matches were identified where an SPD is being awarded at a property, but there is more than one person recorded on the Electoral Register. We sifted the matches to remove duplications from previous data matches and concentrated on the higher Council Tax band properties and highlighted 53 matches for investigation. To date we have identified fraud/error in 14 of these cases, with a combined overpayment in excess of £12,500. We have also matched the data provided by NFI with housing applications data, which has enabled us to close/amend some of the applications, make changes to Council Tax liability, identify Housing Benefit overpayments, and correct the Electoral Register.

6. National Fraud Initiative (NFI)

The National Fraud Initiative is a bi-annual exercise which seeks to match various data held by public bodies to identify fraud and error. The exercise used to be carried out by the Audit Commission, but after their abolition, the Cabinet Office has taken over responsibility. In early 2015 the Cabinet Office provided us with the results of their 2014/15 data match, and have subsequently provided further reports, in total producing over 45,000 matches indicating potential anomalies in data. In addition we have subscribed to the NFI Flexible Data Matching Service, which has produced a further 8,998 matches in Council Tax related data (see 6 above). The majority of these matches are not indicative of either fraud or error; some are due to errors in data recording, however a few have resulted in fraud being detected. The Cabinet Office indicate which reports they consider to have a high risk of fraud and have recommended that we review just under 10,000 of the matches. This together with our previous experience has been used to decide which matches to look at. There is no expectation that we will look at them all and due to the limitations in our resources, we rely on individual service areas to check some of the matches. The work on these continues and to date we have processed 7,786 matches, identifying fraud and error of £206,036.

Over 35% of the total matches relate to Housing Benefit records. Previously, these matches would have been reviewed by the Benefit Counter Fraud Team, but the creation of the Single Fraud Investigation Service (SFIS) as part of the Welfare Reform Act, meant that this function was transferred to the Department for Work & Pensions (DWP). These matches have therefore been referred to the Benefit Service to review, which has meant training a number of their officers to use the NFI database. Where potential anomalies are confirmed, a referral is made to SFIS for investigation. It is estimated that around 250 referrals have been made to date. The Benefit Service have actioned all high and medium recommended matches, with the exception of those relating to Student Loans, which are still being worked on. Of all the matches actioned to date, a total of £161,781 in overpaid Housing Benefit has been identified.

Just under 14% of the total matches relate to claims for Council Tax Reduction (CTR). Where anomalies are identified adjustments have been made to the Council Tax accounts in question. To date we have identified fraud and error totalling £32,103. We have not been able to pursue these cases on a criminal basis as in many cases there are no separate CTR documents, as claims were 'passported' over if the claimant was previously in receipt of Council Tax Benefit (CTB).

We have worked with directorates to resolve issues that have been identified in the various other reports produced by the NFI.

7. Proactive Fraud Work

In our attempts to concentrate our resources to address areas deemed to be particularly at risk to fraud and error, last year we began a number of proactive fraud exercises. Using our experience of where previous fraud referrals have come from, we have undertaken projects on payroll overpayments, nursery income and direct social care payments. These projects not only help to detect fraud/error, but also highlight areas of poor practice and procedural non-compliance. Indeed the work that we undertook to identify payroll overpayments, by identifying users whose system access had become dormant and comparing them to active payroll records, has now been adopted by the Payroll & Pensions Section, as one of their standard checks to highlight potential overpayments.

We are looking to develop our proactive work programme and with the funding secured from the DCLG, work has started on a project using data analytics to continually monitor the main financial systems for fraud and error, and data matches identified to date are currently being reviewed. 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.

8. Management of Staff

We still receive a high number of referrals which relate to problems which would not have occurred if staff had been more effectively managed. Failure to have in place procedures and working practices may result in reduced levels of internal control and place greater reliance on the monitoring of budgets and performance. It is important that managers understand their roles and responsibilities in this. Similarly, it is important that staff follow procedures and adhere to the Code of Conduct, and when they don't, appropriate management action is taken.

9. Conclusions

Counter fraud work remains a priority for the City Council. We continue to work on reinforcing the message of 'zero tolerance' through prevention, detection and deterrence.

As part of our investigatory work we continue to highlight weaknesses in systems and procedures making recommendations to assist management in addressing these issues.

Whilst it is difficult to assess the City Council's overall exposure to the risk of fraud, 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.

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.

Our commitment to enhancing our data analytics capability is key to identifying and stopping fraud and error.

We will continue to work to raise awareness of general and specific risks of fraud, and to ensure that employees know how to report any concerns that they may have.

Neil Farquharson

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