BIRMINGHAM CITY COUNCIL

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director, Audit & Risk Management**
Date of Meeting:	**25th September 2018**
Subject:	**Birmingham Audit Annual Fraud Report 2017/18**

Wards Affected: **All**

1.   Purpose of Report

1.1   The attached report updates the Audit Committee on how the Council has managed the risk of fraud during the period April 2017 to March 2018.

2.   Recommendations

2.1   Members note the content of this report.

3.   Background

3.1   The annual fraud report is a standalone report to summarise how the risk of fraud is being managed by the 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 are asked to note the content of this report.

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Birmingham Audit Annual Fraud Report 2017/18

25th September 2018

Contents

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 2017/18, 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 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, 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 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, particularly during times of austerity. 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.

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

publication produced following the abolition of the Audit Commission). We will continue to assess our performance to ensure that it is in line with expectations and align our resources and processes accordingly.

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 will also investigate any issues of procedural non-compliance which may have a financial or reputational impact on the Council. A specialist team within CFT was established in 2010 to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax, as well as to provide an intelligence hub. The resources available for counter fraud activities have remained unchanged from 2016/17 which has allowed us to continue with both reactive and proactive investigations as well as exploring new initiatives through increased use of data analytics.

3.2   Previously we reported that we had been enhancing our fraud monitoring capability through a process of knowledge transfer arising from a project undertaken with external consultants utilising funding from DCLG. This has enabled us to extract data from Council systems and run our own reports to help flag up any unusual patterns in transactions for further interrogation and investigation. This will also help to inform the routine audit assurance work in these key financial systems.

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 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 in 2015.

4.2   As part of our work in raising the 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 City Council via the intranet, and to all schools via the Schools Noticeboard. We are currently exploring the use of other media to maximise its distribution. 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. Last year we participated in a working group reviewing the risks within the procurement cycle posed by Serious & Organised Crime.

4.3   We have worked closely with the Place 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 developed, with the support of senior management, a network of 'Housing Fraud Champions' to help promote greater awareness of social housing fraud and to act as a single point of contact for our Application Fraud Investigators to obtain assistance during the course of their investigations.

4.4   We continually look for innovative ways to raise awareness of tenancy fraud and are looking to run a publicity campaign to heighten awareness amongst the public. We also publicise some of our successful prosecution outcomes to highlight the consequences of committing this type of fraud.

5.   Levels of Fraud

5.1   It is difficult to measure the level of fraud. 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   In 2016, the UK Fraud Costs Measurement Committee (UKFCMC) estimated that the annual value of fraud across all sectors of the UK economy was £193 billion. This represents a massive increase on previous estimates from the now defunct 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 £37.5 billion, which again represents a significant increase in the previous estimate of £20.1 billion produced by the NFA.

5.3   It is difficult to place a monetary value on our anti-fraud activity during 2017/18, particularly in terms of our work 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 2017/18, the level of fraud/error investigated by CFT totalled just over £0.7m. This excludes application based fraud (Social Housing and Council Tax) which is covered in Section 6 of this report.

5.4   During the year CFT received information in respect of 115 potential irregularities (111 in 2016/17) from a variety of sources. Referrals can cover a wide range of issues, some of which lead to major investigations requiring significant resource, whilst others are referred to the directorates to deal with. 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. Additional referrals may arise when we raise awareness of a particular issue, or when we identify a specific issue through data matching exercises such as the National Fraud Initiative (NFI). Last 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.
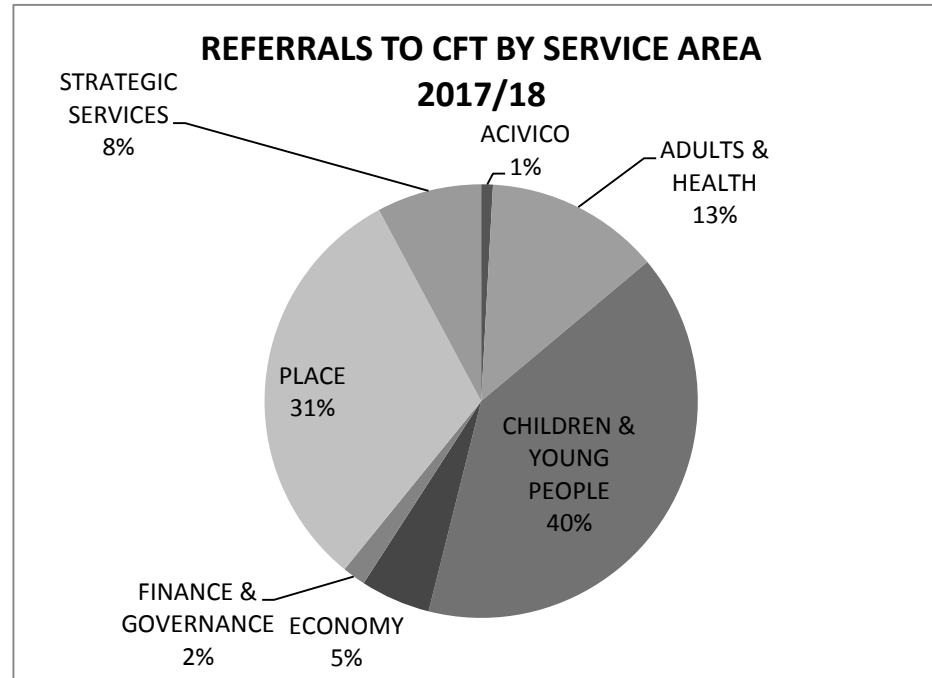
The table below summarises the reactive investigations activity of CFT (excluding Application Fraud) during the year:

	2016/17	2017/18
Number of outstanding investigations at the beginning of the year	14	10
Number of fraud referrals received during the year	111	115
Number of cases concluded during the year	115	97
Number of investigations outstanding at the end of the year	10	28

The referrals can be categorised by fraud type as follows:

FRAUD TYPE	No. OF REFERRALS RECEIVED - 2017/18
Employee Benefit Related Fraud	1
Employee Revenues Related Fraud, i.e. Council Tax, Rents	4
Procurement Related Fraud, i.e. purchasing, contracts, creditor payments	26
Payroll/Recruitment Related Fraud, i.e. salary overpayments, false absenteeism, overclaimed hours, false employment history	37
Grants to External Organisations	3
Grants or Allowances to the Public, i.e. Direct Social Care Payments	2
Computer Misuse, i.e. password sharing, unauthorised systems access	11
Employee Code of Conduct	8
Theft	9
Other	14
Total	**115**

The referrals can be categorised by service area as follows;

REFERRALS TO CFT BY SERVICE AREA 2017/18

- STRATEGIC SERVICES 8%
- ACIVICO 1%
- ADULTS & HEALTH 13%
- PLACE 31%
- CHILDREN & YOUNG PEOPLE 40%
- FINANCE & GOVERNANCE 2%
- ECONOMY 5%

5.5   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.

5.6 Over the last few years we have received a high number of referrals from Shared Services relating to payroll overpayments. Failures to record absences or other events which affect pay (e.g. reduction in hours worked, accumulated long term sickness absence, maternity leave, contract termination etc.) last year gave rise to 19 salary overpayments of over £3,000, with a combined value of just over £118,000. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been taken, 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 responsibilities. It is disappointing that overpayments are still occurring on such a regular basis, particularly when they arise as a result of managers failing to input a termination date when an employee leaves, as this means payments continuing after the employee has left and requires additional resource in raising a debt to recover the overpayment.

5.7 An emerging trend to arise last year was the deliberate manipulation by some employees of attendance recording systems. We investigated an employee who was found to be clocking in/out at a work location other than where they were based to claim additional hours. Arising from this we undertook a proactive analysis of the Borer time recording system to identify any similar patterns of behaviour and this highlighted two other employees who were colluding to claim additional time. We have also investigated two employees who had been recording different types of absence on attendance monitoring systems in order to fraudulently claim additional time off work, and another employee who continued to work to a previous work pattern of hours despite having increased their paid hours several years previously.

5.8 Procurement related fraud, which covers everything in the Procure to Pay Cycle, is commonly regarded as high risk. Last year 26 referrals under this category were received, a number of which related to the Housing Repairs and Maintenance Contract, which are being investigated as part of the contract monitoring role within Birmingham Audit. Other referrals involved misuse of purchase cards, allegations of nepotism in the award of contracts and invoicing scams targeted at schools.

5.9 Last year we completed investigations in to two significant frauds involving thefts within the same service area. The employees involved in these cases were dismissed and both are currently subject to criminal proceedings.

5.10 We have continued to enhance our capability in the use of data analytics to identify potential fraud and error. Last year we carried out proactive exercises looking at Activity on Systems by Leavers, Employees Casual Hours, and Recording of Attendance. These projects not only help to detect fraud/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, and are seeking to enhance this by undertaking a corporate fraud risk assessment.

5.11 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 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 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 Council.

6. Application Fraud

6.1 The re-prioritisation of our work in recent years in response to legislative changes and to reflect those areas seen as high risk, has seen more resources being committed to tackling application based fraud such as Social Housing and Council Tax, both of which are commonly acknowledged nationally as being high risk areas. The CIPFA Fraud & Corruption Tracker estimated that in 2016/17, the value of Social Housing fraud across the UK was £263.4 million, and Council Tax related fraud was £25.5 million.

6.2 During the year we have continued to work closely with the Place Directorate, as well as local Registered Providers of social housing, to investigate and remedy all aspects of social housing fraud, including illegal sub-letting, non-residency, false applications and Right to Buy. Our primary objectives have always been:

a) to recover social housing properties where investigations find that they are not being used as intended;

b) to protect the gateway for social housing by preventing fraudulent applications entering the system

6.3 We continue to advise the Directorate on records management, photo ID's, and the new application system, as well as providing training and support to front line staff in the use of the data warehouse to help them 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.

6.4 We continue to receive a high number of notifications relating to potential social housing fraud. Last year we raised 912 cases (900 in 2016/17). Through our investigations, we recovered 87 Council and Registered Provider properties (45 in 2016/17) with a combined indicative value of £8,091,000*. 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 152 housing applications prior to letting (194 in 2016/17). This has been key to preventing scarce social housing being allocated to people that were not entitled. We have also stopped 4 Right to Buy applications (4 in 2016/17), with a combined indicative value of £260,000**. In addition, during the course of our work, we have located former tenants owing rent totalling nearly £30,000 and have identified numerous anomalies in relation to Council Tax and Housing Benefit.

  * Based on an indicative cost of £93,000 per property, source: Cabinet Office
  ** Based on an indicative saving of £65,000 per property, source: Cabinet Office

6.5 A Prosecution & Sanctions Policy was approved by the Audit Committee in 2013 and legislation such as the Fraud Act 2006 and the Prevention of Social Housing Fraud Act 2013 can be used to prosecute offenders. 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. Last year we prosecuted six individuals who had made fraudulent applications for housing and cautioned one other. Wherever possible, we attempt to recover any losses under Proceeds of Crime legislation, and last year the courts awarded us compensation of £38,990. More than half of this was in relation to a case involving a former City Council Housing Needs Officer who was jailed in 2016 for making false housing applications. In addition, we have supported the directorate 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.

6.6 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.

6.7 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.

6.8 Fraud relating to the Council's Council Tax Reduction Scheme, and other Council Tax exemptions are investigated by the team. We have previously 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. Last year we prosecuted one individual, issued two fines, and imposed three penalties. We have been working with colleagues in Revenues & Benefits to automate the administration and application of fines and penalties through their systems.

6.9 In previous years we have concentrated on identifying fraudulent claims for Single Person Discount, but last year we proactively investigated 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 £1,077,096 of adjustments in Council Tax liabilities were identified. We have liaised with senior management within Revenues & Benefits to initiate improved mechanisms for reviewing Council Tax exemptions, including use of our data warehouse. Last year we raised 846 cases (305 in 2016/17) relating to Council Tax. In addition, during the course of our work, we identified Housing Benefit overpayments totalling nearly £826,748 (£589,110 in 2016/17).

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.

8. National Fraud Initiative (NFI)

8.1 In January 2017, we received the results of the 2016/17 NFI data match, a bi-annual exercise undertaken by the Cabinet Office which matches a variety of data across public bodies for the purpose of identifying fraud and error. The Cabinet Office does not expect all of the matches to be checked and provide guidance on which they recommend to be investigated. Whilst the matches may be an indicator of fraud or error, in the vast majority of 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 have to pass the majority of these matches to the relevant service area for them to review, particularly those relating to Housing Benefit, Council Tax Single Person Discounts and Housing Tenancies. With the latter, the majority of matches relate to joint tenancies where one partner has left and not been removed from the tenancy, so technically they could come back and exercise their tenancy rights, such as Right to Buy. Housing have been asked to address this by arranging to get the non-resident tenant removed from the tenancy.

8.2   The 2016/17 NFI exercise generated 44,706 matches for the Council. A number of new datasets have been included, such as Companies House data, which has been matched with payroll to help identify any members of staff gaining pecuniary advantage from not declaring a business interest. One of these matches helped identify a procurement issue at a school which is still under investigation. To date fraud and error of £648,376 has been identified from the 13,735 matches reviewed, the majority of which relate to Housing Benefit.

8.3   Preparations are underway for the 2018/19 NFI exercise, and we expect the matches to be released to us in January 2019. We have had discussions with the Cabinet Office to seek ways of improving NFI and have made a proposal to them to exclude the majority of our internal matches as we have developed the capability to run our own matches on a more regular basis.

9.   Management of Staff

9.1   We still receive a high number of referrals which relate to problems which would not have occurred if staff had been more effectively managed, or work processes better controlled. Failure to have in place robust 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 and not allow a culture where fraud and corruption can flourish. 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.

9.2   We cannot stress enough the importance of staff following laid down policies and procedures. This helps the 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.

10.   Conclusions

10.1   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.

10.2   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 chose not to comply.

10.3   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.

10.4   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.

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

10.6   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.

10.7   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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