

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

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| Report to: | AUDIT COMMITTEE |
| Report of: | Assistant Director, Audit & Risk Management |
| Date of Meeting: | 25th July 2017 |
| Subject: | Birmingham Audit Annual Fraud Report 2016/17 |
| 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 2016 to March 2017.

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 2016/17

25th July 2017

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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 are of relevance to the Council, and in particular the role played by Birmingham Audit in the 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 the recovery of any losses.
- 1.3 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

- 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. 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 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 2015/16 (apart from a six-month vacancy) 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 Last year, utilising funding from the DCLG Counter Fraud Fund, we worked with an external partner to develop fraud monitoring capability to run across the City Council's main 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. 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 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 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, with the assistance of HR and Legal Services, we developed/enhanced guidelines aligned to the Staff Code of Conduct to cover employee fraud in relation to Benefits, Council Tax, Social Housing and Blue Badges.

- 4.3 Although limitations on our resources largely preclude us from providing fraud awareness training sessions, following an investigation into a fraud by a recipient of Direct Care Payments, we provided training to the Client Financial Service Team within the former Directorate for People on the fraud risks associated within the Direct Care Payment process. Following the training, two cases of suspected fraud were referred to CFT for investigation.
- 4.4 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 are working on an e-learning package specifically for staff in these areas. 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.
- 4.5 We continually look for innovative ways to raise awareness of tenancy fraud. Last year we used a till receipt advertising campaign and wrote a blog for Birmingham Newsroom to promote the issue, and used 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 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, 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 Last year 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 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 2016/17, 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 2016/17, the level of fraud/error investigated by CFT totalled just under £0.75m. 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 111 potential irregularities (139 in 2015/16) 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 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 receive information through data matching exercises such as the National Fraud Initiative (NFI). The re-establishment of routine school audits has also led to an increase in referrals in this area. 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 the Team (excluding Application Fraud) during the year.

| | 2015/16 | 2016/17 |
|---|---------|------------|
| Number of outstanding investigations at the beginning of the year | 19 | 14 |
| Number of fraud referrals received during the year | 139 | 111 |
| Number of cases concluded during the year | 144 | 115 |
| Number of investigations outstanding at the end of the year | 14 | 10 |

- 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.

- 5.6 Over the last few years we have received a high number of referrals relating to payroll overpayments from 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 19 salary overpayments of over £3,000, with a combined value of just over £100,000. 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. The recovery of the overpayments is undertaken by Shared Services.
- 5.7 Last year we completed investigations in to two significant procurement related frauds. One of these occurred in a school, where an employee had exploited weaknesses in the procurement process to give work to particular favoured suppliers, as well as placing orders for items which were for their own personal use rather than that of the school. Civil proceedings are ongoing to recover some of these losses. The other investigation involved a Council employee placing orders for catering equipment with a supplier whose invoices were then passed for payment by the same employee in the knowledge that the items were never supplied. The directorate have successfully recovered the overpayments from the supplier. The employees involved in both of these cases were dismissed.
- 5.8 We have used funding secured from the DCLG Counter-Fraud Fund on a project to enhance our capability in the use of data analytics to identify potential fraud and error. This will greatly assist us in carrying out proactive fraud work, and last year we carried out proactive exercises looking at Staff Car Parking and No Recourse to Public Funds. 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.
- 5.9 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.

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, Council Tax and Business Rates, all of which are commonly acknowledged nationally as being high risk areas. The CIPFA Fraud & Corruption Action Tracker estimated that in 2015/16, the value of Social Housing fraud across the UK was nearly £150 million, and Council Tax related fraud was in excess of £22 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 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.
- 6.3 We continue to receive a high number of notifications relating to potential Social Housing fraud. Last year we raised 889 cases (900 in 2015/16). Through our investigations, we recovered 45 Council and Registered Provider properties (95 in 2015/16) with a combined indicative value of £4,185,000*. We also cancelled 194 housing applications prior to letting (300 in 2015/16), with a combined indicative value of £6,984,000**, and reduced the points on a further 37 applications. We have also stopped 4 Right to Buy applications (7 in 2015/16), with a combined indicative value of £260,000***. In addition, during the course of our work, we have located former tenants owing rent totalling just over £180,000.
- * 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
- 6.4 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. Legislation such as the Fraud Act 2006 and the Prevention of Social Housing Fraud Act 2013 can be used to prosecute offenders. Regrettably, our ability to take criminal action against offenders is often hindered by the level of paperwork held within the directorate. Last year we successfully prosecuted a tenant who had provided false information on his application in order to secure a housing tenancy, whilst at the same time, renting out a property that he

owned. 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.

- 6.5 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.
- 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 which was approved by the Audit Committee in 2013 and we have reviewed this to make sure that it remains fit for purpose.
- 6.7 Fraud relating to the 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 raised 305 cases (176 in 2015/16) relating to Council Tax. Our work identified fraudulent claims for exemptions such as Single Person Discounts (SPD's), of £175,256 (£70,000 in 2015/16), and Council Tax Reduction of £130,348 (£40,000 in 2015/16). In addition, during the course of its work, the team identified Housing Benefit overpayments totalling nearly £600,000 (£308,000 in 2015/16).

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 that 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. Last year we received 546 intelligence requests (894 in 2015/16).

- 7.2 Last year we offered to assist the then Directorate of People by using the data warehouse in a pilot exercise to try and identify the whereabouts of children missing from education. The exercise proved highly successful, not only in establishing that the number of missing pupils was considerably less than first thought, but also in terms of identifying fraudulent claims/overpayments in respect of Housing Benefit (£133,897), Council Tax adjustments (£23,471) and the cancellation of Housing Applications (2). We have now set up an arrangement where we are notified on an ongoing basis of any children that are missing from school for more than four weeks, so that we can try to establish their whereabouts more quickly and where necessary, stop any Housing Benefit payments sooner and amend Council Tax/Housing records accordingly.

8. National Fraud Initiative (NFI)

- 8.1 In January 2017, we received the results of the 2016 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 previous NFI exercise in 2014/15 had flagged up 44,663 matches for possible investigation. The Cabinet Office does not expect all of the matches to be checked and provide guidance on which they recommend to be investigated. A review of a sample of these identified fraud and error of just over £200,000, mainly in respect of Housing Benefit.
- 8.2 The 2016/17 NFI exercise has 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 and will assist in highlighting any members of staff gaining pecuniary advantage from not declaring a business interest. We also elected to take part in a pilot match which identifies customers and staff who are recorded on the CIFAS national fraud database as having committed or attempted fraud against organisations who are members of CIFAS (these are generally, financial organisations and also insurance and communication companies).
- 8.3 The current NFI exercise has to date identified fraud and error to the value of just over £60,000 following the review of 1,617 matches. Our work investigating the various matches continues.

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 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 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.

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.
- 10.3 Whilst it is difficult to assess the 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.
- 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 tackling crime and disorder.
- 10.7 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.

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