

## **BIRMINGHAM CITY COUNCIL**

### **PUBLIC REPORT**

**Report to: Audit Committee**

**Report of: Assistant Director, Audit and Risk Management**

**Date of Meeting: 28 July 2015**

**Subject: Annual Fraud Report 2014/15**

**Wards Affected: All**

#### **1. Purpose of Report**

The attached report seeks to update the Audit Committee on how the City Council has managed the risk of fraud during the period April 2014 to March 2015.

#### **2. Recommendations**

It is recommended that the content of this report is noted.

### **3. Background**

The annual fraud report is a stand alone 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 (Amendments) 2006. 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 It is recommended that the content of this report is noted.

.....  
Kay Reid  
Assistant Director – Audit & Risk Management

**Contact Officer: Kay Reid, Assistant Director, Audit & Risk Management**

**Telephone No: 0121 464 3396**

**e-mail address: [kay.reid@birmingham.gov.uk](mailto:kay.reid@birmingham.gov.uk)**

# **Birmingham City Council**

## **Birmingham Audit**

### **Annual Anti-Fraud Activity Report 2014/15**

#### **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 by the Chief Executive, the Deputy Chief Executive, and the Director of Finance to investigate suspected fraud and identify any system or procedural issues that allowed the fraud to take place. 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 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 our performance against the Audit Commission publication 'Protecting the Public Purse'. We were pleased to be able to report that the City Council is performing well against the questions on the checklist. We are currently in the process of assessing our performance against the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption.

### **3. Resources for Counter Fraud Work**

Responsibility for the investigation of Housing and Council Tax Benefit fraud was transferred out of the City Council as a result of the Welfare Reform Act which saw the implementation of the Single Fraud Investigation Service (SFIS). Staff who previously worked on our Benefit Counter Fraud Team (BCFT) were transferred over to the Department for Work & Pensions (DWP) in February 2015 to join the new service. The Corporate Fraud Team (CFT) is now the only dedicated counter-fraud team within Birmingham Audit and is responsible for the investigation of financial irregularities perpetrated against the City Council, whether this is by employees, contractors or other third parties. 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. Reflecting the Council's financial position, the resources available for counter fraud activities have reduced by just under 20% from 2013/14 (not including the loss of BCFT staff). This has meant the re-prioritisation of our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try and identify fraud and error (see Section 8).

Last year the Department for Communities and Local Government (DCLG) announced that funding of £16.6m would be made available to local authorities to enhance their capability in tackling fraud. We were successful in bidding for funding of £105,000 to provide a continuous fraud monitoring capability to run across the City Council's main financial systems. Once operational, this will flag up any unusual patterns in transactions for further interrogation and investigation. Unfortunately, separate joint funding bids with both our West Midlands and Core City audit colleagues, were unsuccessful.

### **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 earlier this 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, an e-learning package aimed particularly at managers has been made available across all directorates. We also continue to provide training for staff involved in dealing with housing applications and tenancy issues and provide staff in these areas with advice and guidance.

## **5. Levels of Fraud**

It is difficult to measure the level of fraud. Not all fraud is formally reported and some will go undetected. Similarly, some losses can be attributed to error, misinterpretation or poor management. The most recent estimate from the National Fraud Authority (2013) puts the annual value of fraud across all sectors of the UK economy at £73 billion. Of this, £20.6 billion is estimated to be fraud against the public sector, of which £2.1 billion is estimated to be perpetrated against local government.

It is difficult to place a monetary value on our anti-fraud activity during 2014/15, 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 2014/15, the level of fraud/error identified from CFT investigations totalled in excess of £1m. A significant proportion of this is related to a major internal fraud which is still the subject of ongoing legal proceedings.

During the year CFT received information in respect of 112 potential irregularities involving our staff or partner organisations, covering a range of issues. This represents a significant reduction of around 40% on the previous year. 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. The reduction in our resources has meant that only the most urgent or high profile cases are now considered for audit investigation. Details relating to our investigation of Social Housing and Council Tax related fraud can be found in Section 6.

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 will hopefully encourage more staff to make disclosures. We also receive information from various external sources, including members of the public.

The split between different types of referral in any year can be affected by a number of factors. In the past two years we have received a high number of referrals relating to salary overpayments as part of an ongoing payroll cleanse within Shared Services. Similarly, 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 allegations of fraudulent grant claims.

In carrying out our investigations we have regard to the various outcomes available, whether this be internal disciplinary action against a Council employee, recovery of any funds, or referring the matter to the police for possible criminal action. During the year we have worked with HR and Legal Services colleagues to try and refine our investigation processes in an attempt to avoid duplication of effort and speed up the time that it takes to bring cases to a conclusion.

## **6. 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 have previously been identified as such by both the Audit Commission and the National Fraud Authority.

During the year we have continued to work closely with both 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, additions to the allocation policy, the continued development and expansion of the data warehouse, facilities to check the authenticity of identity documentation, providing management information in respect of the Housing Visiting Programme and providing anti-fraud training.

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 have previously secured funding from DCLG for work on Social Housing fraud. We have utilised this funding 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 1,140 notifications relating to potential Social Housing fraud and 150 relating to Council Tax. In addition we received 746 intelligence requests.

The work undertaken last year on Social Housing fraud resulted in the recovery of 77 properties (with a rebuild value of £11.55m\*). Whilst this was less than the previous year, this can be attributed to a switch in emphasis to tackling the problem at source, by investigating fraudulent housing applications, to prevent tenancies from being awarded improperly. This resulted in us stopping 364 housing applications (with an estimated value of £2.912m\*\*) and reducing the points on numerous others. In addition we have stopped four Right to Buy applications, with a combined discount of £228,540, located former tenants owing £165,871 and identified £307,738 of benefit overpayments.

\* Based on rebuild cost of £150,000 per property, source : Audit Commission

\*\* Based on £8,000 per application, source : Local Services (average costs associated with recovering property)

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, although our ability to do this is often hindered by inadequate paperwork held within the directorates. Last year we successfully prosecuted someone who had fraudulently claimed a 70 per cent Right to Buy discount to buy her council house, whilst living in a second home that she had owned for over 10 years. An application has been made by the Council under the Proceeds of Crime Act to recover the loss.

In addition to the obvious social benefits of ensuring that only those with the greatest need are allocated social housing, 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.

Losses arising from fraudulent claims for Council Tax discounts and exemptions have been identified as a significant risk to local authorities by both the Audit Commission and the National Fraud Authority. Since April 2013, local authorities have been responsible for creating and 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.

Fraud relating to the City Council's Council Tax Reduction Scheme, and other Council Tax exemptions are investigated by the team. Last year our work identified fraudulent claims for exemptions such as Single Person Discounts (SPD's), of around £70,000, and Council Tax Reduction of over £40,000.

A data match highlighting nearly 27,000 SPD's being claimed in households where more than one person is shown on the Electoral Register, has been passed to Revenues to consider and action as

appropriate. In response Revenues have advised that bulk SPD reviews are being undertaken, and 17,000 are scheduled to take place by October 2015. Their experience is that the Electoral Register information is generally dated and cannot be relied on solely as source data. Within the wider domain a risk based approach has been used for SPD reviews which combine wider data sets to produce defined categories of accounts for investigation. Proposals to introduce this risk based approach are ongoing. In the interim the cases identified through the data match will be cross-referenced with targeted cases to ensure maximum recovery prospects are maintained.

As our work on Social Housing and Council Tax fraud increases we are expecting to see cases which involve City Council employees. As we have done traditionally in cases involving benefit fraud, when such cases are proven the relevant managers will be informed so that they can take the appropriate disciplinary action. For this purpose, guidelines for dealing with such cases have been formulated and agreed with HR.

## **7. 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, which produced over 36,000 matches indicating potential anomalies in data. 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 nearly 1,500 matches, identifying fraud and error of £15,874, all of which relate to Housing Benefit claims.

## **8. 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. We are looking to develop our proactive work programme with the funding secured from the DCLG to provide continuous fraud monitoring across the main financial systems.



## **9. 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.

## **10. 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.

To successfully fight fraud we must balance our inclination to trust with a healthy sense of scepticism and seek verification of any information provided. Managers must remain alert to the risk of fraud and take responsibility for assessing that risk within their business area. 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.

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  
Group Auditor – Corporate Fraud Team