



Agenda Item 10

Audit Committee Report

REPORT TO AUDIT COMMITTEE

DATE

10 April 2014

REPORT OF Assistant Director of Finance - Business Partnering and Internal Audit.

ITEM

SUBJECT

Protecting the Public Purse annual fraud report

SUMMARY

The purpose of this report is to inform the Audit Committee of information and key recommendations contained in the Audit Commission's annual 'Protecting the Public Purse 2013' report and to provide an update on fraud investigation activity within the Council during 2012/13.

RECOMMENDATIONS

1. That the Audit Committee notes the content of this report.
2. That the Audit Committee notes the completed checklist for those responsible for governance (Appendix A)

FINANCIAL IMPLICATIONS
CLEARED BY

No
K Inman

PARAGRAPHS
59

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

TEL NO.
0114 27 35587

AREA(S) AFFECTED

CATEGORY OF
REPORT

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO Cleared by:
Equality of Opportunity implications
YES /NO Cleared by:
Tackling Health Inequalities implications
YES /NO
Human rights implications
YES /NO
Environmental and Sustainability implications
YES /NO
Economic impact
YES /NO
Community safety implications
YES /NO
Human resources implications
YES /NO
Property implications
YES /NO
Area(s) affected
Corporate
Relevant Scrutiny Board if decision called in
Is the item a matter which is reserved for approval by the City Council? YES /NO
Press release
YES /NO

Sheffield City Council

Report to the Audit Committee – April 2014

Audit Commission Report - Protecting the Public Purse

Purpose of the Report

- 1 To inform the Audit Committee of information and key recommendations contained in the Audit Commission's 'Protecting the Public Purse 2013' report.
2. To provide the Audit Committee with a completed checklist for those responsible for governance. The checklist is extracted from the Protecting the Public Purse 2013 report.
3. To provide the Audit Committee with details of fraud activity reported to Internal Audit and investigated within the authority during financial year 2012/13. Where appropriate I have included details from the 2013/14 financial year, and also work we intend to do in the current year.

Introduction

4 The Audit Commission has published its annual 'Protecting the Public Purse 2013 – Fighting fraud against Local Government' report which provides a summary of detected fraud and identifies key fraud risks affecting local government. The publication also provides recommendations of good practice in managing the risk of fraud for both central and local government. The report is published near the end of the year, to allow it to amalgamate and summarise the responses that it receives from all local government and other bodies for the previous year.

5 This report summarises the key fraud risks contained in "Protecting the Public Purse" and incorporates the SCC perspective on these risk areas.

6 This report also includes details of SCC activities intended to address the key fraud risks as identified by a checklist contained in the appendices of the Protecting the Public Purse publication (checklist for those responsible for governance).

7 The report highlights the key messages on fraud in the public sector, namely;

- It is estimated that fraud costs the UK public sector more than £20 billion a year and local government more than £2 billion.
- In a time of austerity, preventing fraud is even more important to protect the public purse.
- Every pound lost through fraud cannot be spent on providing public services.

Key Risk Areas

8 The Audit Commission collected fraud data from almost 500 public sector organisations during 2012/13 to provide a comprehensive picture of detected fraud. The results of the survey map the extent and location of detected fraud and help to identify good practice.

9 The following table summarises the 2012/13 survey of detected fraud in local government and I have included the previous year's figures as a comparison.

	2012/13	2011/12	Percentage Difference
<i>Total fraud</i>			
Total value	£178,000,000	£179,000,000	-1
Number of detected cases	107,000	124,000	-14
Average value per Case	£1,664	£1,444	+15
<i>Housing benefit/ council tax benefit</i>			
Total value	£120,000,000	£117,000,000	+3
Number of detected cases	47,000	54,000	-13
Average value per Case	£2,553	£2,167	+18
<i>Council Tax discounts</i>			
Total value	£19,600,000	£21,000,000	-7
Number of detected cases	54,000	61,000	-12
Average value per Case	£363	£344	+6
<i>Other Frauds</i>			
Total value	£38,400,000	£41,000,000	-6
Number of detected cases	6,000	9,000	-33
Average value per Case	£6,400	£4,556	+41

10. The above figures do not include the value of detected housing tenancy fraud.

11. Types of fraud that are included in the "Other Fraud" category primarily consist of; procurement fraud, abuse of position, payroll pensions and expenses fraud, disabled parking concession fraud, false insurance claims and social care fraud.

12. There is a noticeable variation in the amount of detected fraud, with London Boroughs showing a 36 per cent increase, but most non- London regions showing a decline in detected fraud of between 6 and 46 per cent. It is noted that 79 Councils (mainly District Councils) reported no detected non-benefit fraud.

13. It is noted in the report that some fraud types have increased significantly in percentage terms notably "right to buy" fraud which increases year on year by 168 per cent on the previous years. The total number of 102 is still small, but due to changes in the regulations this is an area of concern and one where Internal Audit is targeting resource in the coming year.

14. The other area raised as an issue is social care fraud which at 200 cases worth £4million showed a 64 per cent increase in cases and 62 per cent increase in value since 2011/12. This is another area where Internal Audit has targeted to examine the controls in place with Sheffield City Council.

Yorkshire and the Humber

15. The report shows the detected frauds by Region in 2013/13 the number of cases was 9,700 down 6 per cent on the previous year, while the value of the frauds rose by 8 per cent to £12,400,000.

16. The report states it is not possible to say whether the decline in overall detected fraud represents lower levels of fraud committed, or less detection by Councils. It does say that it may signal the effect of reduced investigatory resources. Across England only 6 per cent of Councils are reporting an increase in resource and 22 per cent reporting a decrease with the remaining 72 per cent showing no change. In Yorkshire, 9 per cent are showing an increase, 27 per cent a decrease, while 64 per cent remain the same.

Housing Tenancy Fraud

17. There are approximately 4 million social housing properties in England with an asset value of more than £180 billion. Over half the stock is managed by Housing Associations and the waiting list totals approximately 2 million families.

18. Housing tenancy fraud refers to the unlawful use of social housing and includes;

- Illegal sub-letting (against the conditions of the tenancy)
- Provision of false information to obtain a tenancy
- Wrongful assignment/succession of tenancy where no longer occupied by the original tenant
- Abandonment, selling the key to a third party or failing to use the property as the principal home.

19. The value of housing tenancy fraud was placed at £845 million a year based on a previous estimate that 50,000 properties were subject to tenancy fraud and therefore not available to other tenants. This was calculated using the National Fraud Authority model which states that the main direct cost comes from the need to place homeless families in temporary accommodation. This is approximately five times the annual loss due to Housing Benefit Fraud.

20. The overall number of detected frauds of this type has increased and 2,642 homes were covered nationally in 2012/13; this is a 51 per cent increase on the previous year.

21. Due to the value of property the prevalence of this type of fraud is more significant in London and the amount detected is equivalent to 0.35 per cent of the total London council housing stock. This compares to 0.046 per cent in Yorkshire and Humber.

22. The Council has a unit who are involved in the recovery of properties where tenancy fraud is detected. Internal Audit will examine the processes undertaken by this unit as part of its 2014/15 work programme on proactive fraud investigation.

23. The report highlights the need for Council's to cooperate on this issue, so that information is passed between all social housing providers in an area.

24. In 2013, the government passed legislation that criminalises sub-letting fraud. On conviction, tenancy fraudster faces up to two years in prison or a fine of £50,000. The legislation allows Councils to prosecute tenancy fraudsters on behalf of Housing Associations. This is an area that Internal Audit will examine as part of its audit work referred to in para. 22 above.

Council Tax Fraud

25. The total amount raised from Council Tax in England in 2012/13 is in the region of £22 billion. The National Fraud Authority estimates that £135 million is lost to council tax fraud each year. The majority of the losses are stated as fraudulently claimed discounts and exemptions including single person discount and student exemption.

26. The level of detected cases fell by 12 per cent in 2012/13. This may be because some councils prefer to align their detection activities to the two-yearly NFI data matching timetable.

27. Sheffield City Council are currently in the process of extracting data from its systems in order to take part in the data matching exercise.

28. During 2012/13, SCC participated in the biennial National Fraud Initiative (NFI), single person discount exercise which matched Council Tax discount data to the electoral register. Analysis and investigation of the NFI data matching reports resulted in the cancellation of discounts and a total of £156k potential additional revenue (subject to collection and any reinstatements).

29. Internal Audit conducts regular reviews of the Council Tax system to test the operation of internal controls and make recommendations where appropriate.

Trends and development in other fraud risks

30. The Protecting the Public purse highlights other areas of fraudulent activity which although not as significant as housing tenancy fraud and council tax discount fraud, warrant attention from Council's.

Business Rates

31. In 2012/13, Councils in England contributed nearly £22 billion in non – domestic (business) rates to central government. The government distributes this money across Councils. Business rate fraud includes:

- Falsely declaring mandatory or discretionary rate relief or empty property exceptions;
- Failure to declare occupancy of the property;
- Falsely claiming insolvency status to evade payment; and
- Not disclosing relevant information, for example, about the size of the company, to gain rate relief.

32. The Council has in place processes to detect and prevent these types of fraud, and they are tested as part of the Internal Audit's annual reviews of the systems in this area.

Right to Buy

33. This type of fraud appears to be on the increase as described in para. 13 above. One of the reasons behind this is the increase in right to buy discounts, which has increased the incentive to undertake this type of fraud. The Council is well aware of this and has in place processes to prevent this type of fraud, and this will be tested by an Internal Audit review of this service in the coming year.

Social Care (including Direct Payment) Fraud

34. As described in para. 14 above, this type of fraud appears to be on the increase. Personal budgets are intended to increase the independence and quality of life for people in receipt of social care and local authorities can apply personal budgets in a number of ways including direct payments. Direct payments may be administered by the social care client, an independent care provider, a friend or family member and the Council.

35. The level of payments nationally has risen from 8 per cent of social service budgets in 2007/08 to 21 per cent in 2012/13. The value of these payments was £1.3 billion in 2012/13. This obviously stretches the resources to monitor the budgets, whilst at the same time increases the chances of fraud occurring.

36. The risks associated with direct payments are summarised as:-

- A person falsely claiming that they need care – the risk is increased due to the transition from traditional care provision to access to direct payment funds;
- Carers using the direct payments that they manage on behalf of care recipients for personal gain;
- Failure to notify Councils that a care recipient has died and continue to receive direct payments;

- Submitting duplicate applications in multiple Councils.

37. The Council's processes for controlling this expenditure have been examined and reported to the Audit Committee and a follow up is included on this Agenda.

Procurement

38. The National Fraud Association estimates that procurement fraud costs local authorities £876 million, making it the single largest area of financial loss to fraud in local government. In 2012/13, the total value of detected fraud was £1.9 million. This type of fraud is difficult to detect and investigate.

39. The Audit Commission cites a number of on-going risk areas relating to procurement and contracting, the key areas of external fraud being:

- Collusion between staff and bidders to award contracts and favourable terms
- Collusion between bidders to agree that they will not bid competitively for a particular contract
- Bidders purposely failing to tender in accordance with the contract and later submitting false claims for extra costs.

40. Following the award of a contract fraud can occur when contractors:

- Provide inferior goods and services
- Override minimum statutory pay and health and safety conditions for financial gain
- Submit false invoices
- Inflate performance information to obtain greater payments than due.

41. Internal Audit has recently reviewed the computer application that is used to submit and evaluate tenders and no significant issues were identified. Internal Audit now includes the risk of fraud in all of its procurement and project reviews.

Housing and Council Tax Benefit.

42. National expenditure on Housing and Council Tax Benefit was £28 billion of which fraudulent claims totalled £120 million. This area of fraud has received the highest level of investigative resource and expertise and consequently represents the single largest amount of detected fraud in local government.

43. During 2012/13, 310 instances of suspected Housing and Council Tax Benefit fraud were identified for investigation. These included 3 cases involving employees. This resulted in 151 sanctions taking place.

44. it is noted that the number of sanctions was significantly lower than in the previous year where 248 were recorded. This is as result of 4 significant changes which took place during the year;

- DWP introduced the new Automated Transfers to Local Authority Systems (ATLAS) system that is intended to detect issues earlier in the process and resolve them before they become a fraud issue.
- This year was not an NFI year, and as such there were no matches from this process.
- Housing benefit matching service (HBMS), checking did not take place, as during this year staff resources were moved to other duties (with the agreement of the Council to cover temporary resources issues in the assessments area).
- The DWP amended the regulations in the process that meant that many smaller issues were dealt with via compliance, rather than being referred for fraud investigation.

45. The majority of Housing Benefit and Council Tax Benefit fraud is investigated by a specialist team of staff located in Capita. Internal Audit investigates any allegations involving Council employees and also co-ordinate the NFI data matching exercises.

46. The 151 cases of Housing and Council Tax Benefit fraud detected during the year resulted in the following sanctions: -

- Cautions 47
- Administrative Penalties 15
- Prosecutions 89

47. It should be noted that whilst the total number of cases fell by 40 per cent, the number of prosecutions fell by only 22 per cent.

48. The anticipated introduction of universal credit did not take place during the year.

49. Central Government has also firmed up proposals for a Single Fraud Investigation Service (SFIS) that will be a partnership between HMRC, the Department for Work and Pensions and Local Authority fraud investigation staff. Staff will now transfer from the Council's contractor to be directly employed by DWP, this is significantly different from the position that was reported previously. DWP will directly manage the investigations process for Housing Benefit. This move is expected to take place before the end of the current financial year.

Mandate Fraud

50. Mandate frauds occur where fraudsters attempt to redirect payments intended for legitimate creditors such as large contractors. The Council was the subject to several attempted mandate frauds during 2013/14. In one instance a mandate fraud breached the Council's controls, but the payment was detected and payment prevented. The Council's processes have been reviewed in light of this. The checking has been strengthened and reiterated to staff to ensure that the potential for such breaches are minimised in future.

51. The matters were reported directly to the Police who have investigated the crime.

Annual Fraud Survey

52. During 2012/13 Capita and Internal Audit carried out Housing Benefit fraud investigations. Other investigations consisted of allegations investigated by Internal Audit and those that were notified to Internal Audit and investigated by management.

53. The investigations are categorised in the format of the annual Audit Commission fraud survey as follows:

Type of Fraud	No of investigations
Housing Benefit fraud	310
Housing fraud (Non-benefit)	3
Right to Buy fraud	0
Council Tax fraud	0
National non-domestic rates	0
Procurement fraud	2
Fraudulent Insurance claims	0
Social Services fraud	0
Economic and third sector fraud	0
Debt fraud	0
Pension fraud	0
Investment fraud	0
Payroll and Employee contract fraud	3
Expenses fraud	0
Abuse of position	7
Disabled parking concession	0
Recruitment fraud	0
Other fraud	0

54. The total is a reduction of 2 from the previous year. It should be noted that all notified allegations were investigated.

55. This was not an NFI year, which tends to reduce the number of investigations. The Council has reduced the number of staff, particularly in areas such as schools (due to the increase in academies). The Street Force service has also transferred out during this period. These are areas which consistently gave rise to a number of particularly low level frauds, which are now not counted in the Council figures.

Checklist for those responsible for governance.

56. The Audit Commission has included a checklist within the Protecting the Public Purse report which is intended to allow those responsible for governance to assess their counter-fraud arrangements against stated good practice. Internal Audit has completed the checklist on behalf of the Audit Committee and a copy is attached at Appendix A.

57. The tolerance of fraud within an organisation is a key element of a counter fraud framework. SCC has formally adopted a Policy Statement on Fraud & Corruption that underlines a zero tolerance to such acts. Fraud awareness training has been provided to services throughout the Council including staff transferred in from Sheffield Homes and an e-learning course has been developed and made available on learning pool to assist any identified staff development requirements.

Recommendations

58. That the Audit Committee notes the content of this report.

59. That the Audit Committee notes the completed checklist for those responsible for governance (Appendix A)

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