



REPORT OF Assistant Director Finance – Business Partnering and **DATE**
Internal Audit

17th April 2013

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 2012' report and to provide an update on fraud investigation activity within the Council during 2011/12.

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
48

BACKGROUND PAPERS

Protecting the Public Purse 2012 – Audit Commission

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**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: K Inman
Legal implications
YES /NO
Equality of Opportunity implications
YES /NO
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
Relevant Scrutiny Committee if decision called in
Not applicable
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 2013

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 2012' 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 2012 report.
3. To provide the Audit Committee with details of fraud activity reported to Internal Audit and investigated within the authority during financial year 2011/12.

Introduction

- 4 The Audit Commission has published its annual 'Protecting the Public Purse 2012 – '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.
- 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).

Key Risk Areas

- 7 The Audit Commission collected fraud data from 480 public sector organisations during 2011/12 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.

8. The following table summarises the 2011/12 survey of detected fraud in local government.

Total Fraud	2011/12
Value	£179,000,000
Cases	124,000
Average value	£1,444
Housing/Council Tax Benefit	
Value	£117,000,000
Cases	54,000
Average value	£2,167
Council Tax Discounts	
Value	£21,000,000
Cases	61,000
Average value	£344
Other Frauds	
Value	£41,000,000
Cases	9,000
Average value	£4,556

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

Housing Tenancy Fraud

11. 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.
12. 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.
13. The value of housing tenancy fraud was placed at £900 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 (£18,000 per family).

- 14 The extent and value of housing tenancy fraud has been subject to additional research and the Audit Commission currently estimates that the level of fraud in London is between 4 and 6 per cent of total properties. It is also estimated that outside of London the incidence of housing fraud equates to at least half of that figure and therefore affecting a total of approx. 98,000 homes in England. The above figures are based on a small sample of detection exercises conducted in London and should be considered as indicative rather than statistically significant.
- 15 The Audit Commission conducted a small study to examine some of the misconceptions about tenancy fraud including: -
 - **Tenancy fraudsters have to be rehoused** – in 87% of cases the social housing provider did not have to rehome the fraudster
 - **Court action is required to regain control of the property** – in 85% of the cases the keys were handed back without the necessity for court action
 - **Tenancy frauds last only a few months** – in 43% of cases properties were unlawfully occupied for over a year
 - **Tenancy frauds are unconnected with other frauds** – there is evidence of other types of fraud in 45% of detected tenancy fraud (commonly Housing Benefit fraud).
 - **Specialist fraud investigators are not needed to tackle tenancy fraud** – social housing providers had used specialist investigation staff in 88% of the detected tenancy fraud cases
 - The exercise also concluded that outside of London most tenancy fraud related to abandonment and non-occupation of the home as a primary residence.
- 16 During 2011/12 1,748 properties were recovered due to detected tenancy fraud. Of these 1,209 were recovered in the London area and 49 in the Yorkshire and Humberside area. It is felt that the disproportionate share of the detected tenancy fraud in the London area reflects the dedicated investigatory capacity and joint working with Housing Associations.
- 17 Good practice outside of London is cited in Wolverhampton and Stoke on Trent where properties have been recovered by co-operation between specialist fraud investigators and housing officers.
- 18 Recent initiatives to assist organisations in fighting housing tenancy fraud include creation of the Tenancy Fraud Forum, an independent group of housing providers committed to tackling housing fraud and the creation of criminal offences relating to unlawful sub-letting of secure and assured tenancies (Prevention of Social Housing Fraud Act 2013).

- 19 During 2011/12, 3 cases of housing sub-letting fraud that were identified during an unlawful sub-letting project were reported to SCC Internal Audit by Sheffield Homes. All 3 properties were recovered without the need for legal action.

Council Tax Fraud

- 20 The total amount raised from council tax in England in 2012/13 is in the region of £26 billion. The National Fraud Authority estimates that £131 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.
- 21 The Audit Commission survey indicates that an increasing number of council tax frauds are being detected and councils are generally addressing single person discount, student awards and empty property exemptions (in 2011/12 70% of metropolitan authorities, unitary councils and London boroughs detected council tax discount fraud).
- 22 Capita undertook an annual review of single person discount in the form of a data matching exercise conducted in association with Experian during 2010/11. This resulted in the cancellation of 327 discounts and generated £39, 537.
- 23 In 2011/12 Sheffield City Council did not report any cases of council tax single person discount or other discount/exemption fraud.
- 24 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. This was the first time that SCC has participated in the exercise as previous legal advice restricted the provision of data. 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 re-instatements).
- 25 Internal Audit conducts regular reviews of the Council Tax system to test the operation of internal controls and make recommendations where appropriate.

Personal Budgets (direct payment) fraud.

- 26 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. A survey conducted by the Association of Directors of Adult

Social Services found that in 2011/12 national expenditure on personal budgets exceeded £2.597 billion.

- 27 The Audit Commission 2011/12 national survey found that the average value of incidents of social care fraud (including personal budgets) was £18,000 and total social care fraud amounted to £2.2m.
- 28 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.
- 29 During 2011/12 Sheffield Council did not report any cases of Social Services fraud, however, three instances of financial abuse of position were reported by the service area.
- 30 At the time of writing this report Internal Audit were in the process of finalising a counter fraud audit that examined the vulnerability of the direct payment system to acts of irregularity. In addition, along with a number of neighbouring local authorities SCC has agreed to participate in a national data matching pilot exercise which has been organised by the Audit Commission, NFI team. The exercise has been specified to identify any incidence of the risks listed in paragraph 28 above and the data matching reports are scheduled for release in late March.

Procurement fraud

- 31 The Audit Commission reported that there were 187 detected incidents of procurement fraud totalling £8.1m in local government during 2011/12 (an average of £43k per incident).
- 32 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.
- 33 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.

34 During 2011/12 SCC recorded 1 incident of proven procurement fraud.

Housing and Council Tax Benefit fraud

35 National expenditure on Housing and Council Tax Benefit was £27 billion of which fraudulent claims totalled £117 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.

36 During 2011/12, 248 cases of Housing and Council Tax Benefit fraud were detected within SCC and of these 6 involved Council employees. 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.

37 The 248 cases of Housing and Council Tax Benefit fraud detected during the year resulted in the following sanctions: -

Cautions	91
Administrative Penalties	45
Prosecutions	112

38 With effect from April 2013 Council Tax Benefit will be abolished and the Council will be required to introduce a local scheme of Council Tax Support. Funding from Central Government for the local scheme will be approximately 90% of that received for the Council Tax Benefit awards. The new local scheme will continue to be means tested and vulnerable to the same risks of fraud that apply to the current scheme.

39 A further key change to the provision of welfare will be the introduction of Universal Credit that will be administered by the DWP with effect from October 2013. Under this scheme Housing Benefit will be abolished, phased out and replaced by a housing costs element within the Universal Credit calculation.

40 Central Government has also introduced 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. Whilst Council fraud investigation staff will be expected to work within SFIS policies, priorities and procedures, in the short term they will remain employed by their local authority and located in their existing accommodation. A number of SFIS pilot exercises are being undertaken to test the various models for the design of a national rollout. Whilst SFIS officially commences from April

2013, for those sites not involved in pilot exercises SFIS policy and procedures will come into force in 2014/15. The investigation of Council Tax Support and Local Authority corporate fraud will not fall within the remit of SFIS and the Audit Commission advises that councils maintain the capability to investigate non-housing benefit related fraud, proportionate to the level of risk that they face.

Mandate Fraud

- 41 Mandate fraud occurs where fraudsters attempt to redirect payments intended for legitimate creditors such as large contractors. Whilst the number of detected incidents in local government remains low (10 organisations nationally) the value of an occurrence can be high. The National Anti-Fraud Network and the Police issue bulletins and alerts to raise awareness of this type of fraud. There were no detected incidents of mandate fraud reported in SCC during 2011/12.

Emerging Fraud Risks

- 42 The Audit Commission report identifies areas of emerging fraud risks affecting local authorities. In 2011/12 the following areas were noted: -
- **Business rates fraud** – false claims for mandatory/discretionary relief, failure to declare occupancy of a property, false use of insolvency and false applications for rate relief were cited as the main types of fraud identified. In addition, incidents of charitable status abuse to obtain rate relief have been reported.
 - **Right to buy fraud** – whilst nationally the number of right to buy applications has reduced over recent years, an increase in the right to buy maximum discount is expected to raise the number of applications. Right to buy fraud occurs where false documentation is used to support the application or where an unlawful occupant applies for a discount.
 - **Social Fund fraud** – currently managed by Jobcentre Plus however from April 2013 local councils will take over administration of Local Welfare Assistance.
 - **Fraud against schools** – the Audit Commission reports that schools have been victims of many types of internal and external fraud in recent years and advocates a review of whistleblowing arrangements and the application of fraud prevention and detection arrangements proportionate to risk.
 - **Grant fraud** – this type of fraud includes false applications and failure to use funds for the intended purpose. The National Fraud Authority estimates that this type of fraud costs local government £41m each year.

Annual Fraud Survey

- 43 During 2011/12 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.
- 44 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	248
Housing fraud (Non benefit)	3
Right to Buy fraud	0
Council Tax fraud	0
National non-domestic rates	0
Procurement fraud	1
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	7
Expenses fraud	0
Abuse of position	4
Disabled parking concession	0
Recruitment fraud	2
Other fraud	0

Checklist for those responsible for governance.

- 45 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.
- 46 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 and Sheffield Homes and an e-learning course has been developed and made available on learning pool to assist any identified staff development requirements.

Recommendations

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

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