

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director for Corporate Services

to

Audit Committee

on

8th January 2014

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Counter Fraud Service Update

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the requirements of Fighting Fraud Locally.

2. Recommendation

2.1 The Audit Committee notes the progress made in delivering the:

- **Key Corporate Counter Fraud Plan Performance Targets**
- **Fighting Fraud Locally requirements.**

3. Joint Working Arrangements

- 3.1 The Council has entered into a Fraud Services Joint Working Agreement with Thurrock Council until 31 March 2014. During this period, it has been agreed that:

- Thurrock Council will provide a Fraud Manager resource to Southend Borough Council.
- the Councils will share Counter Fraud staff resources as is appropriate
- Thurrock Council's Fraud Manager will work with the Southend Borough Council's Head of Internal Audit to deliver:
 - the performance targets for both Councils' fraud teams
 - a proposal for a more structured and longer term arrangement for providing a fraud service to both Councils and South Essex Homes.

- 3.2 Should this proposal be approved by all parties, they will work together during this Agreement period to implement the new arrangements.

- 3.3 During this initial period, the Counter Fraud Team's working practices will be subject to a fundamental review. The intention is also to:
- provide training in premises searching and seizure so that they will be able to lead investigations independently of other law enforcement organisations, whilst providing opportunities to use cash seizure powers under the Proceeds of Crime Act 2002
 - train the staff to become Accredited Financial Investigators under the Proceeds of Crime Act 2002 so that investigative orders to obtain financial accounts, solicitors records etc can be obtained in all fraud investigations. Currently this is only possible in benefits fraud cases. The accreditation provides the ability to restrain assets suspected of being obtained as the proceeds of crime and to take confiscation against those assets to recoup losses
 - implement an immediate and enhanced proactive intelligence function drawing on tools at Thurrock Council not previously available to the Council.
- 3.4 This will significantly enhance the team's ability to deliver its services in preventing, detecting and deterring fraud and corruption in all areas of the Council by utilising specialist tools obtained by Thurrock Council (such as the Police National Computer, Police Airwave Radio Network and advanced Financial Investigation tools).

4. Counter Fraud Performance Targets / Corporate Counter Fraud Plan Update as at 22 November 2013

4.1 **Appendix 1** contains details of performance against the 2013/14 targets. Due to the significant change in working approach outlined above, the performance indicators for the service have been simplified for the remainder of the year. Once the future operating arrangements for the service have been agreed, a full set of performance indicators will be established with an updated Corporate Counter Fraud Plan.

4.2 So in summary:

- productivity was as expected and sickness absence was below the target
- the team continues to make good progress in addressing action required to ensure the Council complies with the requirements of Fighting Fraud Locally
- the service expects to meet its housing benefit fraud targets for cases investigated and sanctions delivered
- whilst the reporting and investigating of housing tenancy fraud is developing, it is unlikely that the target will be delivered this year
- the service is developing its working arrangements with Internal Audit when systems weaknesses are identified via an investigation.

Housing Benefit Fraud

4.3 The Counter Fraud Team had received 510 referrals in respect of Housing and Council Tax Benefit and Department for Work and Pension Benefits. Of these, the top three types of '**alleged**' benefit frauds were as follows:

- 150 where people were living together
- 57 where people had income from other sources
- 45 of non-residence.

4.4 In respect of Housing and Council Tax Benefit and Department for Work and Pension Benefits:

- 14 Summonses had been issued for court action
- 11 Administrative Penalties had been agreed to the value of £9,840.84, which result in either a 30% or 50% fine based on the level of the identified overpayment
- 5 Formal Cautions had been issued for admittance of an offence
- there had been 19 prosecutions
- 162 cases had been investigated and closed
- overpayments had been identified totalling £354,098.25.

Housing Tenancy Fraud

4.5 The number of potential housing tenancy fraud referrals is increasing and at the time of reporting:

- 38 allegations had been received since 1st April 2013
- 5 properties had been returned
- there had been 1 tenancy change
- 17 cases were in progress
- 15 cases had been closed with no action taken.

4.6 A proactive fraud exercise was undertaken jointly by the Council's Counter Fraud Team and South Essex Homes Tenancy staff to validate the tenancies in one of the 14 tower blocks. The tenants were given a timeframe in which to attend South Essex Homes' offices with supporting identification which was then checked against the tenancy record to prove the correct people were occupying the flats. Any tenants who did not attend within the timescale were visited outside of office hours to verify their residence.

4.7 Whilst the exercise proved to be very useful to the Tenancy team, no frauds were identified. However, the exercise resulted in 371 fobs belonging to tenants who no longer live at the block being disabled. Therefore, South Essex Homes intend to continue with this type of exercise.

4.8 South Essex Homes also ran a housing tenancy fraud amnesty during November and December 2013. This gave tenants the opportunity to return their keys without the risk of being investigated for fraud.

4.9 A Tenancy Fraud leaflet was sent to every South Essex Homes tenant with their rent statement in August 2013. This encouraged tenants to think about the different types of tenancy fraud and provided a form on which any allegations of tenancy fraud could be reported directly to the Counter Fraud Team. Four forms have been returned and the allegations are being investigated.

Blue Badge Fraud

- 4.10 The number of referrals in respect of Blue Badge fraud is increasing and at the time of reporting:
- 30 allegations had been received since 1st April 2013
 - 1 Formal Caution had been issued
 - 12 Warnings had been issued
 - 3 Blue Badges had been retrieved
 - 1 Blue Badge application was declined
 - 3 cases were in progress
 - 10 cases had been closed with no action taken.

Corporate Fraud Cases

- 4.11 The Counter Fraud Team had received nine new referrals since 1 April 2013. At the time of reporting:
- 1 member of staff had been dismissed
 - 1 compromise agreement had been obtained
 - 7 cases were in progress
 - 1 case had been closed with no formal action taken.

Audit Commission's National Fraud Initiative (NFI) 2012

- 4.12 **Appendix 2** sets out the position with regard to investigating data matches produced by the Audit Commission's National Fraud Initiative. Good progress has been made in clearing data matches and from the 6,064 matches identified:
- only 8 full fraud investigations have been generated
 - 298 system or process errors have been corrected resulting in overpayments of £46,142.59 being identified.
- 4.13 Work is still underway to clear outstanding matches and complete the investigations.

Fraud Awareness Sessions

- 4.14 The fraud awareness sessions were delivered before Xmas by Jim Gee, Director of Counter Fraud Services and his team from BDO.

Advanced Data Mining Exercise on Accounts Payable Data

- 4.15 The advanced data mining exercise to analyse accounts payable data is underway. The results of this exercise are expected back before the end of December 2013.

5. Fighting Fraud Locally

- 5.1 Good progress has been made in strengthening the Council's compliance with the 'Good Governance Framework' based on the requirements of Fighting Fraud Locally. An updated assessment is set out in **Appendix 3**, with work done since this was last reported to the Audit Committee highlighted in bold for ease of reference.
- 5.2 Since this was last reported to the Audit Committee in March 2013:
- the Anti Fraud & Corruption, Whistleblowing and Money Laundering policies and strategies have been updated to include schools
 - the Corporate Counter Fraud Plan has been produced
 - the signing of the Joint Working Agreement with Thurrock Council has:
 - given the Counter Fraud Team access to specialist skills that have enabled it to provide a more comprehensive and effective service
 - increased the opportunities for the service to work with other enforcement agencies.
 - the project to skill up both Counter Fraud and Internal Audit staff to be able to match data from different systems continues to progress well.
- 5.3 An assessment has also been undertaken against the good practice checklist contained within the Audit Commission's Protecting the Public Purse: Local Government Fighting Fraud. Most of the requirements are already covered in the Anti Fraud and Corruption Governance Framework (Fighting Fraud Locally) attached in Appendix 3. Nevertheless, the outcome from this assessment will be considered when preparing the Corporate Counter Fraud Plan for 2014/15. If required, additional good practice elements will be included in Appendix 3.

6. Corporate Implications

6.1 Contribution to Council's Aims and Priorities

Work undertaken to reduce fraud and enhance the Council's anti fraud and corruption culture contributes to the delivery of all its aims and priorities.

6.2 Financial Implications

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

6.3 Legal Implications

The Accounts and Audit (England) Regulations 2011 section 4 (2) require that:

The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes the arrangements for the management of risk.

6.4 People Implications

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings, prosecution and / or referral to the police
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

6.5 Property Implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity.

6.6 Consultation: None

6.7 Equalities Impact Assessment

The Counter Fraud Service Strategy has been assessed.

Assessments on the Anti Fraud & Corruption Policy, the Whistleblowing Policy and the Money Laundering Policy are updated whenever the policies are refreshed.

6.8 Risk Assessment

Failure to implement the framework which supports the delivery of the risk management policy and strategy and these policies increases the risk that Council' objectives will not be delivered.

Failure to operate a strong anti fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity

Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

6.9 Value for Money

An effective Counter Fraud Service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

6.10 Community Safety Implications and Environmental Impact:

None

7. Background Papers

- Fighting Fraud Locally, The Local Government Fraud Strategy
- Association of Local Authority Risk Managers (ALARM) Publication: Managing the Risk of Fraud
- CIPFA Publication: Managing the Risk of Fraud
- Audit Commission Publication: Protecting the Public Purse: Local Government Fighting Fraud
- National Fraud Authority, A Guide to Tackling Housing Tenancy Fraud
- National Fraud Authority, Slipping Through the Net: Staff Vetting Guide for Local Authorities
- Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework.

8. Appendices

- **Appendix 1: Counter Fraud Performance Indicators 2013/14**
- **Appendix 2: 2012 Audit Commission National Fraud Initiative Data Matches Update, as at 30 November 2013**
- **Appendix 3: Anti Fraud & Corruption Governance Framework (Fighting Fraud Locally)**