

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	23 rd September, 2015
3.	Title:	Annual Fraud Report 2014/15
4.	Directorate:	Finance and Corporate Services

5. Summary

The purpose of the attached Annual Fraud Report 2014/15 is to bring together in one document a summary of the work which has taken place in the period to prevent, detect and investigate allegations of fraud and corruption.

The Council has a zero-tolerance to fraud and corruption. It is proposed to publish the Annual Fraud Report to help the Council demonstrate this commitment and act as a deterrent to further fraud.

6. Recommendations

The Audit Committee is asked to:

- Support the production of the Annual Fraud Report 2014/15
- Agree to appropriate publicity being produced to highlight the outcomes from the Council's anti-fraud activity and to act as a deterrent to fraud.
- Note the important national changes in responsibility for combatting fraud arising from the recent abolition of the Audit Commission.

7. Proposals and Details

- 7.1 The production of an annual fraud report, which details the work done by the Council to counter fraud and corruption, is in line with good practice recommended by CIPFA. Attached at **Appendix A** is a draft annual fraud report for 2014/15. The purpose of the report is to raise awareness and inform our stakeholders of the work the Council undertakes to manage the risk of fraud and corruption.
- 7.2 The report demonstrates that the incidence of general fraud remains very low in overall terms taking into account the Council's activities and its level of spending. Furthermore, the overall number and value of fraud cases and other significant issues in 2014/15 has fallen slightly since 2013/14.
- 7.3 However, there are some significant changes in the type of fraud detected within the quantum. Housing and council tax benefit fraud has fallen. Meanwhile, the detection of council tax discount claims and business rates tax evasion has risen sharply, primarily as a result of pro-active fraud detection analytical procedures which have enabled the Council to identify incorrect claims.
- 7.4 The Council investigated 784 potential fraudulent benefits cases (1,060 in 2013/14) and, from these, obtained 17 prosecutions (37 in 2013/14) and issued 95 cautions and penalties (96 in 2013/14).
- 7.5 Whistleblowing cases (as in previous years) remained low as did the number of suspicions referred to Internal Audit by service management.
- 7.6 There are significant changes affecting fraud within RMBC and nationally, explained in turn below.
- Significant changes are due to affect the Council in 2015/16 through the introduction of the Single Fraud Investigation Service. Currently, the Council employs specifically trained investigators to investigate benefits fraud from within. The Government, through HMRC and the Department for Work and Pensions (DWP), are working through a rolling program to incorporate housing benefits fraud investigators into the DWP. Staff currently investigating benefits fraud within the Council will be TUPE transferred to SFIS with effect from December, 2015. Under this process the Council will be obliged to perform certain benefits fraud related tasks as a Single Point of Contact [SPOC]. In terms of the latter a Service Level Agreement between RMBC and the DWP is being produced.
 - The European Institute for Combatting Corruption and Fraud (TEICCAF), founded in April 2015, now exists in part to continue the counter fraud work of the Audit Commission. The former counter fraud team of the Audit Commission (now part of TEICCAF) has continued to look at the landscape of fraud against councils and has recently published 'Protecting the English Public Purse 2015', which continues the annual series of fraud detection reports first started by the Audit Commission in 1990.
 - The Cabinet Office is now responsible for the National Fraud Initiative (NFI) previously managed by the Audit Commission. Investigation of cases highlighted by the NFI 2014/15 has identified negligible savings to date.

7.6 Priorities for 2015/16 are to further strengthen the Council's arrangements for combatting fraud and corruption. Following a self-assessment against the recently published "CIPFA Code of Practice for managing fraud and corruption" a range of actions have been identified and are outlined in the recently revised RMBC Anti fraud and corruption strategy / policy / action plan.

7.7 It is not possible to prevent and detect all fraud. The Council strives towards a zero-tolerance to fraud and corruption and to minimise the risk of fraud. The Council publicises cases of proven fraud to deter others who might be considered acting fraudulently. Once agreed, it is proposed to publish the Annual Fraud Report to help the Council further demonstrate its commitment and act as a deterrent to further fraud.

7.8 In late 2014, Rotherham and Doncaster Internal Audit Services successfully made a joint bid for counter-fraud funding from DCLG (£49,000 each for to cover the period Jan 2015 to March 2016). The bid was to carry out two strands of work involving (1) a programme of awareness training and (2) data analytics work to look for erroneous and fraudulent transactions. This work is in progress and details of outcomes will be presented to the Audit Committee in due course.

8. Finance

8.1 Any costs associated with publicising the outcomes achieved in the year can be contained within the budget. Publication of positive outcomes can enhance the Council's reputation and deter fraud and corruption against the Council.

9. Risks and Uncertainties

9.1 Failure to maintain robust arrangements for the prevention and detection of fraud and corruption increases the risk of loss to the Council from fraudulent activity.

10. Policy and Performance Agenda Implications

10.1 The Rotherham Improvement Plan – A Fresh Start [2015], the Improvement Plan Actions [Phase 1 Transition May 2015 - May 2016] include the objective of "Effective financial planning & management" which includes "Effective fraud and anti-corruption measures". The production and distribution of the Annual Fraud Report 2014/15 highlights performance to date and plans to combat fraud and corruption.

11. Background Papers and Consultation

"Protecting the English Public Purse 2015" [TEICCAF – The European Institute for Combatting Corruption and Fraud]

"Rotherham Improvement Plan – A Fresh Start, 2015".

"National Fraud Initiative 2014/15" [Audit Commission]

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Appendices:

Appendix A - Annual Fraud Report 2014/15

Appendix A

ROTHERHAM METROPOLITAN BOROUGH COUNCIL

ANNUAL FRAUD REPORT 2014/15

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1. INTRODUCTION

Rotherham Council has a zero tolerance to fraud and corruption

- 1.1 This fraud report is produced by Rotherham Council to raise awareness of the work the Council undertakes to manage the risk of fraud and corruption. It brings together in one document a summary of the outcomes of our work to prevent and detect fraud and corruption.
- 1.2 Rotherham Borough Council (including schools) employs over 6,800 people and 2014/15 it provided services costing £885 million (gross expenditure). It paid over £112 million to over 30,000 Housing and Council Tax Benefit / Council Tax Reduction claimants. Like any organisation of this size, the Council can be vulnerable to fraud and corruption, both from within and outside the organisation. The Council aims to minimise its risk of loss due to fraud and corruption, recognising that any loss incurred may be borne by the honest majority.
- 1.3 The Council's commitment to minimising the risk of fraud and corruption is outlined in the following extract from its Anti-Fraud & Corruption Policy:

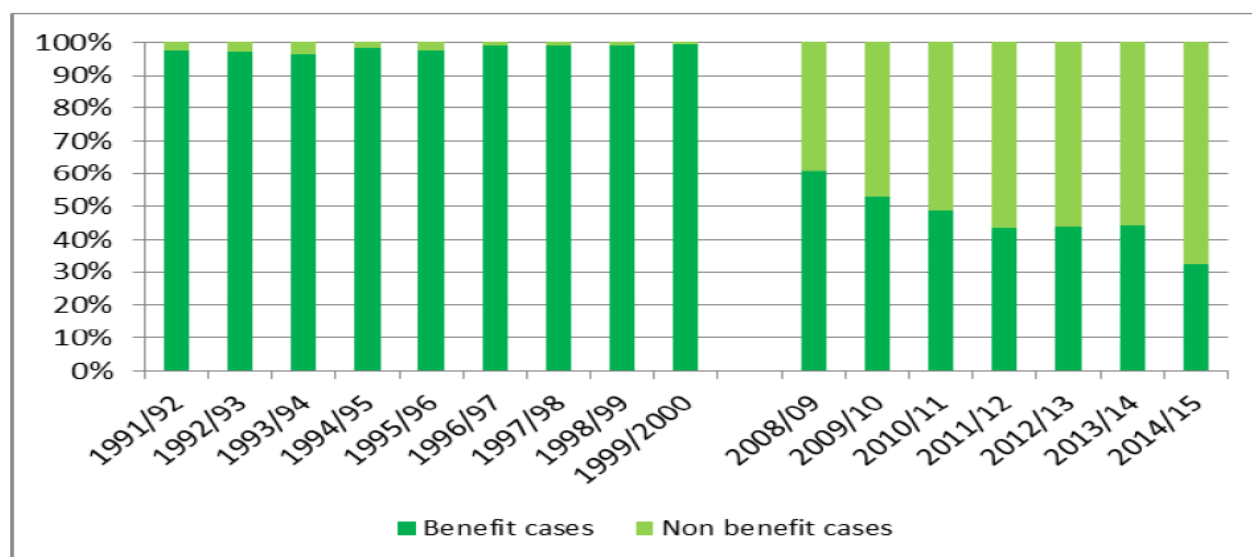
"The Council is determined to prevent and eliminate all fraud and corruption affecting itself, regardless of whether the source is internally or externally based. Our strategy to reduce fraud is based on deterrence, prevention, detection, investigation, sanctions and redress within an over-riding anti-fraud culture. We will promote this culture across all our service areas and within the community as a whole. One pound lost to fraud means one pound less for public services. Fraud is not acceptable and will not be tolerated".

2. NATIONAL PICTURE

Level of detected fraud

- 2.1 In total, English councils detected fewer cases of fraud in 2014/15 compared with previous year. However, their value increased by more than 11 per cent. In particular:
 - the number of detected cases fell by more than 18 per cent to over 84,000 while their value increased by more than 11 per cent to greater than £207 million;
 - the number of detected cases of housing benefit and council tax benefit fraud fell by more than half to just over 27,000 and their value fell by almost 17 per cent to nearly £23.5 million.
 - the number of detected cases of non-benefit (corporate) fraud decreased by greater than 8 per cent to more than 57,000, while their value increased by greater than 63 per cent to more than £97 million.
- 2.2 Non-benefit cases now make up the majority of fraud cases detected. In 1991, only 2 % of cases of detected fraud related to non-benefit. By 2014/15, this has risen to 67.7% This is because financial incentives introduced by the Government to help councils tackle benefit fraud were gradually reduced and later phased out from 1999/2000. This coincided with better controls in place to prevent benefits fraud, thereby reducing its risk and impact. Subsequently, councils have adjusted the allocation of resources available to tackle fraud, away from benefits related cases towards general fraud.

Graph 1: Long term trend in benefit and non-benefit [corporate] frauds detected



3 PERFORMANCE SUMMARY FOR 2014/15 – BY TYPE OF FRAUD.

3.1 HOUSING BENEFITS & COUNCIL TAX REDUCTION SCHEME

It is recognised that the majority of people claiming benefits are honest and declare their correct circumstances when claiming benefit. Unfortunately, there are some who deliberately set out to defraud the benefit system. Housing Benefit (HB) and Local Council Tax Reduction (CTR) fraud was investigated by the Benefits Fraud Team in 2014/15. Investigations were often undertaken in conjunction with the Department for Works and Pensions (DWP), where there are DWP benefits in payment as well as benefits payments to the claimants.

From the authority's perspective the financial result of an investigation where fraud is found, can be:

- The cancellation or adjustment of entitlement to HB, CTRS
- The imposition of a sanction (caution, administrative penalty or prosecution)
- The authority attempting to recover the overpayment of HB or CTRS

In 2014/15, the Council's Benefits Fraud Team completed investigations into 784 suspicious cases (1,060 in 2013/14). The Service obtained 17 successful prosecutions for Housing and Council Tax Benefit Fraud (37 in 2013/14). The Council also issued 44 formal cautions (38 in 2013/14) and 51 administrative penalties (58 in 2013/14). There were 6 cases of Benefit fraud exceeding £10,000 in the year. A summary of the number of prosecutions, cautions and administrative penalties is shown in the following table.

Table 1: The Number of sanctions achieved by the Housing Benefits Fraud Team – 2010/11 to 2014/15

Year	Formal Cautions	Administrative Penalties	Successful Prosecutions	Total Sanctions
2010/11	107	84	25	216
2011/12	108	93	32	233
2012/13	81	84	29	194
2013/14	38	58	37	133
2014/15	44	51	17	112

This trend reflects the national trend, see 2.2 above for explanation.

Examples of outcomes of cases investigated by the Benefits Fraud Team are provided below:

Case 1

A referral was received stating a claimant had her partner living at her address and had not declared this to the benefits office. Further investigations showed that the alleged partner had opened several accounts using the claimant's address and had over-claimed Housing and Council Tax benefits in excess of £30,000.

The case was heard in Rotherham Magistrates and the claimant pleaded not guilty to all charges. Due to the severity of the case it was referred to Sheffield Crown Court. The claimant attended court and changed her plea to guilty. She was sentenced to 10 months imprisonment suspended for 2 years, and given a 12 months supervision order and specified activity requirement.

Case 2

A referral was received from the Department for Work & Pensions which identified that the claimant had failed to declare the true extent of his savings on his claim for benefit. Evidence obtained by the DWP showed the claimant held capital over £40,000, which he failed to declare at the time he applied for Housing Benefit and Pension Credit.

Further evidence was obtained by the Department for Work & Pensions which showed that the claimant had been working both in this country and abroad.

As a result of his failure to declare the true extent of his capital, the claimant was found to have been overpaid £10,000 in Pension Credits, £19,000 Housing Benefit and £3,000 Council Tax Benefit. He appeared at Sheffield Crown Court where he was sentenced to 18 weeks imprisonment, suspended for 13 weeks.

Important change - Single Fraud Investigation Service and Fraud Resources

The Government's "Single Fraud Investigation Service" (SFIS) will be implemented in Rotherham in December 2015 and will take over responsibility for future housing benefits fraud detection and investigation. Arrangements for the transfer of 7 staff from the Council's Revenues and Benefits Fraud Team are underway. Some duties will stay with the local authority and these can largely be absorbed within existing resources and processes, although it will be necessary to establish a Single Point of Contact. Evidence from other authorities who have already transferred their service is indicating a sizeable burden from the SFIS for information.

3.2 BLUE BADGE SCHEME

During 2014/15 there were 11 cases of Blue Badge fraud that were successfully prosecuted. The following are examples:

Case 1

An individual was found guilty of using his grandmother's badge to park his car in the Town Centre whilst she was not present. A successful prosecution in March 2015 resulted in a fine of £140 plus a £20 victim surcharge and court costs of £300.

Case 2

An individual was found guilty of using her father's badge to park her car on Wharnccliffe Street in October 2014 whilst he was not present. A successful prosecution in February 2015 led to a fine of £200 plus a £20 victim surcharge and court costs of £300.

Case 3

An individual was found guilty of using his son's badge to park his car in College Street in February 2014. His son was in school at the time. A successful prosecution in April 2014 led to a fine of £200 plus a £20 victim surcharge and court costs of £309.

3.3 COUNCIL TAX SINGLE PERSON DISCOUNT

During 2014/15 the Revenues Team, in partnership with external specialist Datatank, completed a review of high risk Single Person Discount (SPD) cases that could involve ineligible claims for SPD. Of these, 938 ineligible claims have been identified amounting to £252k in value.

3.4 BUSINESS RATES [NNDR] TAX AVOIDANCE

The Revenues and Benefits Service is continuing with its initiatives to minimise tax avoidance / evasion within the tax base. The Council has engaged Greenhalgh Kerr Solicitors, experts in specialist rating assistance, to pursue companies seeking to avoid business rates. Since this exercise began, in August 2013, the Council have managed to collect approximately £369k from approximately 27 companies, mainly through companies falsely claiming full / part charitable status.

3.5 DUPLICATE CREDITOR PAYMENTS

Financial Services utilises software aimed at enabling the detection of invoices that had been approved for payment by officers of the Council that may have resulted in duplicate payments. These cases do not necessarily imply fraud, but between October 2013 and January 2015, over £1.8m in potential over payments has been prevented and £37,500 in actual over payments recovered.

To strengthen detection even further, a company named Meridian Ltd has been engaged to undertake an annual check of all payments made by the Council to identify possible duplicate payments, unapplied credits and unrecovered credit notes.

3.6 INSURANCE CLAIMS

The Council's Claims handler, Gallagher Bassett, checks any claims received against national insurance data bases to look for duplicate / persistent / doubtful claims.

Additionally, detailed evidence is required to support any claims received and this is examined by Gallagher Bassett.

4 THE ROLE OF INTERNAL AUDIT

The Council's Internal Audit [IA] Team has a crucial role in helping the Council to prevent and detect fraud and corruption. The Team carries out an annual assessment of the areas most at risk of fraudulent activity. It also investigates any areas of suspected fraud.

Various issues were investigated during the year following requests from management and anonymous whistle-blowing 'tip-offs' and allegations. Examples are listed in the table below.

Table 2: Examples of proven fraud cases by Internal Audit in 2014/15

Audit area	How detected	Summary of issues and action taken
Car Parking Income	Management	<p>Internal Audit was informed of 2 instances of income shortfalls (totalling £1300) from one of the Council's car parking machines.</p> <p>A further theft was suspected after a cash box containing £600 went missing following its collection.</p> <p>No fraud could be proven, but Internal Audit recommended control improvements which have now been implemented.</p>
EDS Country Parks	Management	<p>Internal Audit investigated 2 separate incidents of suspected thefts of cash (totalling £2,800) from two of the Council's parks. In both cases there was insufficient evidence to identify the thief. However, Internal Audit made recommendations to improve security to minimise the risk of this occurring in future. All recommendations have now been implemented by management.</p>
EDS Facility Services	Whistle-blowing report	<p>IA investigated an allegation that a Council employee had been taking items of obsolete Council equipment/material earmarked for disposal (i.e. scrap metal), using Council vehicles, to a local scrap metal recycling company and 'weighing-in' the metal for cash payments.</p> <p>Disciplinary action was taken and £1,200 repaid to the Council.</p>

5. NATIONAL FRAUD INITIATIVE

The National Fraud Initiative matches electronic data within and between some 1,300 public and private sector organisations to highlight potentially fraudulent activity. The initiative works by comparing different sets of data, like payroll and housing benefits records, and flagging unusual combinations such as any person claiming housing benefits from more than one local authority or any person claiming housing benefits while failing to disclose his/her employment.

The NFI is undertaken every two years and the current 2014/15 exercise is in progress. To date 469 potential matches have been investigated, this represents 25% of the recommended matches to investigate. Investigations have detected:

- 1 fraud totalling £12,310 involving a housing benefits claimant who did not disclose their pension; and
- 2 separate errors involving persons in receipt of housing benefits and student loans, totalling £1,481.

6. REVIEW OF FRAUD DETECTED WITHIN RMBC, 2014/15

A summary of the results for Rotherham Council for 2014/15 and the preceding 2 years is given below in Table 3.

Table 3 Summary of Identified Frauds at Rotherham Council 2012/13 to 2014/15

Type of fraud	2012/13				2013/14				2014/15		
	Numbers	Value (£)	Involving Employees		Numbers	Value (£)	Involving Employees		Numbers	Value (£)	Involving Employees
Housing benefit and council tax benefit fraud	331	717,900	1		1,060	570,000	0		784	405,000	0
Council tax discount ineligible claims	1,960	557,000	0		1,132	153,000	0		938	252,000	0
Council Tax Reduction fraud	0	0	0		42	5,500	0		121	33,900	0
Business Rates [NNDR] tax evasion *	n/a	n/a	n/a		n/a	137,552	n/a		n/a	149,286	n/a
Procurement fraud	1	3,500	0		0	0	0		0	0	0
Economic and Third Sector support fraud [false payments of grants, loans etc.] to any 3rd party	1	1,200	0		0	0	0		0	0	0
Social Care Fraud	0	0	0		1	6,500	0		0	0	0
Payroll & employee contract fulfilment fraud	5	Not recorded	0		2	Not recorded	2		1		1
Abuse of position fraud	0	0	0		1	Not recorded	1		0	0	0
Disabled Parking concessions [Blue Badge]	13	Not applicable	0		13	Not applicable	1		11	Not applicable	0
Other fraud – employees/public	2	1,800	1		0	0	0		3	5,900	3
Total value of fraud detected	2,313	1,281,400	2		2,251	872,552	4		2,121	846,086	4

Included in the above:

Frauds over £10,000 & all incidents of corruption	8	160,200	0	15	254,000	0	6	112,100	0
Prosecutions	42*	244,200	1	50*	210,200	0	28*	156,900	0

* including benefits and blue badge fraud prosecutions

7. THE COUNCIL'S ARRANGEMENTS FOR MANAGING THE RISK OF FRAUD AND CORRUPTION.

The Council has recently updated its Anti-Fraud, Bribery & Corruption Strategy and Action Plan of practical measures to strengthen our arrangements for the prevention of fraud and corruption

In 2015/16 we will:

- Produce a protocol to agree with the Police covering opportunities for joint operations, sharing of intelligence and general liaison
- Complete data analytics work on potential housing tenancy fraud
- Keep under review the adequacy of the Council's capacity to deal with corporate and general fraud
- Refresh the Council's Anti-Fraud and Corruption Strategy, Policy and Action Plan, and ensure they remain up-to-date with best practice
- Make arrangements for the external verification of the Council's compliance with the Code of Practice on Managing the Risk of Fraud, possibly through some form of peer review.
- Develop a Cyber Security Policy
- Carry out checks on Members' register of interests, and the use of council resources by Members and officers e.g. IT and communication equipment and Members' dealings with the Council as residents.
- Complete a programme of awareness raising and anti-fraud risk register development agreed through the DCLG Counter Fraud Fund Programme. Ensure Members are included in the programme.

8. REPORTING YOUR CONCERNS

If you have any concerns report your suspicions as quickly as possible together with the relevant details. You can report any concerns to the Chief Internal Auditor on Rotherham 382121 Ext. 23297 or the Assistant Director of Legal Services on Ext. 23253.

Alternatively you may prefer to put your suspicions in writing to the:

Assistant Director, Audit, ICT and Procurement,
Finance and Corporate Services Directorate,
Rotherham Metropolitan Borough Council,
Riverside House,
Main Street,
Rotherham, S60 1AE.

The Council would prefer you not to provide information anonymously as any subsequent investigation could be compromised if we cannot contact you to help gain a full understanding of the issues. However, we will still consider anonymous information that is received.

All reported suspicions will be dealt with sensitively and confidentially.

If you wish to report any suspicions in relation to Benefit Fraud ring the Fraud Hotline for free on 0800 028 2080.