

Counter Fraud Annual Report 2018/19 Report by the Chief Internal Auditor

1 Purpose of Report

The purpose of this report is to provide an update to the Audit Committee on the Council's counter fraud responsibilities and the activities of the Corporate Fraud team over the past year as part of the arrangements to tackling fraud at the Council.

2 Background

- 2.1 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside, as set out within its counter fraud and corruption policy and strategy.
- 2.2 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the corporate Fraud & Audit Officers. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management.
- 2.3 Part of the Audit Committee's role is to review the assessment of fraud risks and potential harm to the Council from fraud and corruption, and to monitor the counter fraud strategy, actions and resources.

3 Corporate Fraud Team Activity

- 3.1 Staff resources have been adversely affected during the year, mostly notably due the deployment of Internal Audit and Counter Fraud resources to the ongoing activity associated with the Roads Contract Management Investigation. This has had an impact on the delivery of the Counter Fraud planned work with compliance testing of Licensing and of Council Tax Reduction Scheme, Discounts and Exemptions not being carried out during the year as planned. These have been included within the 2019/20 planned Corporate Fraud activity, approved by this Committee in March 2019. The planned data matching within the National Fraud Initiative will also incorporate the latter activity.
- 3.2 We have calculated, using Audit Scotland guidance (where relevant), that as a result of Corporate Fraud Activity a total value of £801,834 has been identified during 2018/19. These are detailed in Appendix 1. Areas of work undertaken by the Team and the value identified during 2018/19 are detailed below.

- 3.3 The Corporate Fraud Team responded to 18 notifications of Council Tax Discounts and Exemptions alleged fraud during the year to determine whether these discounts and exemptions are claimed legitimately. The activity highlighted 3 cases where circumstances had changed and Council Tax became payable but the Council had not been informed. This identified a total of £4,968 uncollected Council Tax and £1,411 future losses that have been prevented.
- 3.4 The Corporate Fraud Team received a whistleblowing referral, made enquiries and gathered information that resulted in a referral onwards to the Single Fraud Investigation Service (SFIS) of the Department for Work and Pensions (DWP) who have notified the Council that this action resulted in a Housing Benefit overpayment of £36,243.
- 3.5 The Corporate Fraud Team responded to 20 notifications of Council Tax Reduction Scheme (CTRS) alleged fraud during the year to determine whether these CTRS are claimed legitimately. The activity highlighted 2 cases where circumstances had changed, but the Council had not been informed, resulting CTRS entitlement being cancelled. This identified a total of £15,212 uncollected Council Tax. Although planned compliance testing of CTRS was not carried out during the year, as stated in 3.1, the above indicates that reactive CTRS counter fraud work was undertaken relating to this area of fraud risk.
- 3.6 The Team has received notifications from Housing Officers during the year to detect and investigate potential subletting or abandonment of Council owned properties. As a result of this, 78 allegations of potential tenancy fraud were investigated; eight of which resulted in the return of a property to the housing stock which were subsequently made available to those in genuine need. For each of the houses identified the calculation, according to Audit Scotland guidance, is £93,000 over 4 years.
- 3.7 The Corporate Fraud Team developed two eLearning modules on Procurement Fraud Awareness and on Bribery Act 2010 which were rolled out via the LearnPro system in September and November 2018 respectively. Monitoring of completion of these eLearning modules indicates low uptake, in particular by Authorised Signatories.
- 3.8 As part of the Internal Audit function, the Corporate Fraud Team has assisted with the Procurement and Management of Contracts audit during the year (which combined three activities from within the Internal Audit Annual Plan 2018/19 relating to Contract Tenders, Procurement to Payment, and Contract Management in order to cover the end-to-end procurement journey), providing their view on the potential fraud risk aspects of areas under review and performing compliance testing.
- 3.9 The Corporate Fraud Team continues to deal with enquiries from the Midlothian Council website page "Report a possible crime, fraud or similar concern" or the anonymous telephone reporting line which are available to staff or the public for whistleblowing purposes.
- 3.10 As specialist investigators, the Team has continued to conduct significant and comprehensive work in response to the Roads Contract Management Investigation, which in addition has involved significant input from the Principal Internal Auditor. This is ongoing.

- 3.11 The Fraud & Audit Officers are members of the Scottish Local Authority Investigators Group (SLAIG) and represent Midlothian Council at SLAIG's quarterly meetings, therefore sharing best practice across Councils and the wider public sector and ensuring knowledge of emerging fraud risks and issues is up to date.
- 3.12 The Fraud & Audit Officers are part of the Council's Integrity and Contest Groups, relating to Serious and Organised Crime and Counter Terrorism. A member of the team acts as the Single Point of Contact for Midlothian Council with Police Scotland for Serious and Organised Crime Groups.
- 3.13 The annual review of the Council's Anti-Fraud Policy and Strategy (approved December 2016) has been carried out with no significant amendments at this stage. The Anti-Fraud Policy and Strategy lists other Associated Policies across the Council as follows (latest approved date in brackets): Anti Bribery Policy (December 2016); Anti Money Laundering Policy (October 2013); Whistle Blowing – Public Interest Disclosure Policy (December 2016); Information Security Policy (October 2017); Employee Code of Conduct (November 2016); and Disciplinary Procedure (January 2017). A standalone Gifts & Hospitality Policy and a Secondary Employment and Conflict of Interest Policy are being developed as improvements to current arrangements. It is important that associated policies, procedures and guidelines across the Council are regularly reviewed and updated, as appropriate, as this will ensure that they keep pace with best practice in relation to fraud and corruption prevention and detection, to ensure their continued relevance and effectiveness. An assessment will be carried out during 2019/20 of the Council's anti-fraud policy framework against best practice; for example, the CIPFA Counter Fraud guidance.
- 3.14 Midlothian Council continues to participate in the National Fraud Initiative (NFI) which is a UK wide counter-fraud exercise led by Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. The Principal Internal Auditor acts as the Council's Key Contact for NFI and the Corporate Fraud Team has coordinated the submission of the required data sets from various Council systems and responded to the data matches received to date; the review and investigation of matches will continue during 2019/20 and the outcomes of this will be included in the next annual report.
- 3.15 In conclusion, the Corporate Fraud Team has been successful in achieving the above outcomes during 2018/19 and making best use of resources to support Midlothian Council's objectives within its Anti-Fraud and Corruption Policy and Strategy. The latter states the Council's anti-fraud and corruption culture, sets out the strategic focus on deter and prevent fraud and corruption, and details the Council's response to any such activity. Tackling fraud is an ongoing process as the Council's internal and external operating environment changes. The 2019/20 planned Corporate Fraud activity was approved by this Audit Committee in March 2019.

4 Report Implications

4.1 Resource

Within the Internal Audit service there are operational costs of resourcing the two Fraud & Audit Officers (1 FTE Corporate Fraud Team), who are Accredited Counter Fraud Specialist officers. Any additional costs arising from enhanced fraud risk mitigation within the Council's Services will have to be considered and prioritised against other pressures in the revenue budget.

4.2 Risk

The report sets out primary responsibility for the prevention, detection and investigation of fraud that rests with Management, and directly addresses fraud risk and outcomes arising from work undertaken by the Corporate Fraud Team to reduce the risks within the Council.

4.3 Single Midlothian Plan and Business Transformation

Themes indirectly addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

4.4 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the gap in economic circumstances) by preventing and detecting fraud additional resources might be available to support the Council's objectives. Any loss of funds due to fraud and corruption might impact on the ability of Midlothian Council to achieve its priorities.

4.5 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit and Corporate Fraud work during the year assists the Council in improving its performance and outcomes which are designed to maintain and / or enhance fraud prevention and detection controls.

4.6 Adopting a Preventative Approach

Having a robust fraud prevention and investigation service contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. Specific compliance and data matching work within the 2019/20 planned Corporate Fraud activity, approved by this Committee in March 2019, will assess fraud, theft, and corruption prevention and detection controls.

4.7 Involving Communities and Other Stakeholders

This report outlines outcomes arising from work undertaken by the Corporate Fraud Team, some of which arose from whistleblowing received from those within communities or other stakeholders.

4.8 Ensuring Equalities

There are no equalities issues with regard to this report.

4.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

4.10 IT Issues

There are no IT issues with regard to this report.

5 Recommendations

The Audit Committee is therefore asked to consider the counter fraud work undertaken by the Corporate Fraud Team during the year to 31 March 2019, in support of the Council's anti-fraud and corruption policy and strategy, and note the outcomes.

Date: 24 April 2019
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Appendix 1 – Total value arising from Corporate Fraud Team activity

Actual Fraud Detected in 2018/19

<u>Activity</u>	<u>No. of Referrals</u>	<u>No. with Fraud Detected</u>	<u>£ value Fraud Detected</u>	<u>£ value Future Losses Prevented</u>	<u>£ value Total</u>
Investigations carried out relating to Council Tax Discounts and Exemptions ¹	18	3	£4,968	£1,411	£6,379
Investigations carried out relating to Council Tax Reduction Scheme	20	2	£15,212		£15,212
Investigations carried out relating to Housing Benefit	1	1	£36,243		£36,243
78 referrals resulting in investigations which recovered 8 Council houses and return to available housing stock. Value per Audit Scotland guidance (£93,000 over 4 years each).					£744,000
Total value identified as a result of Corporate Fraud Activity					£801,834

It should be noted that a single referral could lead to investigations relating to a number of different types of fraud.

¹ The Cabinet Office has advised that Council Tax can be backdated to the beginning of the financial year fraud was first discovered and claimed to the end of the current financial year so in effect these monies would be classed as loss stemmed, and another year's savings at the same rate as current year as loss prevented.