

## **Counter Fraud Annual Report 2017/18 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**

In October 2015, following the transfer of housing benefit investigations to the Single Fraud Investigation Service (SFIS) of the DWP, the Council's counter fraud staff were transferred to the Internal Audit service. The aim of the transfer was to allow the Council to provide a Corporate Fraud Team.

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.

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.

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 to the Service Review that was undertaken on the Internal Audit function, the introduction of Shared Services arrangement from December 2017 (Chief Internal Auditor 0.5 FTE – shared with Scottish Borders Council), and the deployment of Internal Audit and Counter Fraud resources to the Roads Contract Management Investigation. This has had an impact on the delivery of the Counter Fraud planned work.
- 3.2 We have calculated, using Audit Scotland guidance (where relevant) that the Corporate Fraud Team has identified £1,027,288 of savings during 2017/18. These are detailed in Appendix 1. Areas of work undertaken by the Team and the savings identified during 2017/18 are detailed below.

- 3.3 In carrying out the National Fraud Initiative (NFI) data matching exercise between the Electoral Register and Council Tax Single Person Discount (SPD) records, the Corporate Fraud Team identified 36 overpayments equating to £25,261 of uncollected Council Tax which will provide £29,485 of additional Council Tax annually (as per NFI guidance the latter is an estimate for those future losses that have been prevented). This is an increase from that in the NFI Update 2016/17 report to Audit Committee in December 2017 (£41,248 SPD) as was work in progress and more cases have been investigated since then. Midlothian Council SPD was included as a case study example within the Audit Scotland NFI national report that was published in July 2018.
- 3.4 The Corporate Fraud Team responded to 34 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 4 cases where circumstances had changed and Council Tax became payable but the Council had not been informed. This identified a total of £24,321 uncollected Council Tax and £2,980 future losses that have been prevented.
- 3.5 The Corporate Fraud Team received a query from Housing, made enquiries and gathered information that resulted in a referral to SFIS of the DWP who have notified the Council that this action resulted in a Housing Benefit overpayment of over £14k. This one case also had a £639 Discretionary Housing Payment that was detected.
- 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, 54 allegations of potential tenancy fraud were investigated; ten of which resulted in the return of a property to the housing stock which were subsequently made available to those in genuine need. The saving for each of the houses, calculated according to Audit Scotland guidance, is £93,000 over 4 years.
- 3.7 The Corporate Fraud Team has delivered a Fraud Awareness training session to the Homelessness team, and delivered a Use of Social Media training session to the Revenues Arrears team. In addition fraud awareness-raising posters were circulated across the Council and media releases made to local press in order to encourage reporting of suspected frauds through the existing whistleblowing arrangements.
- 3.8 As part of the Internal Audit function, the Corporate Fraud Team has assisted with various audits during the year (including Purchasing Cards, Accounts Payable, and Construction Industry Scheme), providing their view on the potential fraud risk aspects of areas under review and performing compliance testing.
- 3.9 The Corporate Fraud Team has dealt with 53 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 conducted significant and comprehensive work in respect of the Roads Contract Management Investigation, liaised with Police Scotland as required, and recommended improvements to reduce risks.

- 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 In conclusion, the Corporate Fraud Team has been successful in achieving the outcomes and making best use of resources to support Midlothian Council's objective of protecting the public purse as set out within its counter fraud and corruption policy and strategy.

## **4 Report Implications**

### **4.1 Resource**

There are operational costs of resourcing the two Fraud & Audit Officers (1 FTE counter fraud) within the Internal Audit service. 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 2018/19 planned Corporate Fraud activity, approved by this Committee in March 2018, 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 2018, in support of the Council's counter fraud and corruption policy and strategy, and note the outcomes.

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## Appendix 1 – Savings arising from Corporate Fraud Team activity

### Actual Fraud Detected in 2017/18

<u>Activity</u>	<u>No. of Matches (NFI) or Referrals</u>	<u>No. with Fraud Detected</u>	<u>£ value Fraud Detected</u>	<u>£ value Future Losses Prevented</u>	<u>£ value Total Savings</u>
NFI 2016/17 Single Person Discount – Electoral Register Match. Exercise carried out from April 2017 to March 2018	2,679	36	£25,261	£29,485	£54,746
Investigations carried out resulting in Savings for Council Tax	34	4	£24,321	£2,980	£27,301
Investigations carried out resulting in Savings for Housing Benefit	1	1	£14,602		£14,602
Investigations carried out resulting in Savings in Discretionary Housing Payments	1	1	£639		£639
54 referrals resulting in investigations which recovered 10 Council houses and return to available housing stock. Value per Audit Scotland guidance (£93,000 over 4 years each).					£930,000
<b>Total Savings identified as a result of Corporate Fraud Activity</b>					<b>£1,027,288</b>

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