

Corporate Fraud - Annual Report Report by the Internal Audit Manager

1 Purpose of Report

The purpose of this report is to provide an update to the Audit Committee on the activities of the Corporate Fraud team over the past year and to seek input from the Audit Committee on areas where this resource could be used further.

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 service.

3 Corporate Fraud Team Activity

We have calculated, using Audit Scotland guidance (where relevant) that the Corporate Fraud Team has identified around £250,000 of savings during 2015/16. These are detailed in Appendix 1. Areas of work undertaken by the team and the savings identified during 2015/16 are detailed below.

- 3.1 In carrying out the National Fraud Initiative data matching exercise between the Electoral Roll and Single Person Discount records, the Corporate Fraud Officers identified £11,000 of uncollected Council Tax which will provide £10,000 of additional Council Tax annually. During the investigation it was identified that one of the matches related to a Council house that was not being used as a main residence and was the subject of a right to buy application. This house was recovered and was subsequently allocated to a family on the waiting list. The saving in respect of this house, calculated according to Audit Scotland guidance, is £93,000 over 4 years.
- 3.2 A review of Council Tax exemptions was carried out during the year. There are a number of categories of exemptions available, for example: when a resident goes into hospital for long term care; all residents in a property are students; a house is empty and unfurnished; or a property is uninhabitable. In these cases, no Council Tax is payable on the property. The review highlighted 31 cases where circumstances had changed and Council Tax became payable but the Council had not been informed. The review identified a total of £48,000 of Council Tax collectable (see table below):

Council Tax Exemptions Exercise 2015/16	
Cases with an exemption flag	590
Cases investigated / visited	206
Number of cases where exemption no longer applied	31
Value of identified savings to date	£27,410
Value of annual savings (<i>following Council Tax year</i>)	£20,767
Total savings	£48,177

- 3.3 The team have delivered fraud awareness training to Housing staff. As a result of this, 30 allegations of potential tenancy fraud are being investigated, one of which resulted in the return of a second house to the housing stock, again at a four year value of £93,000. This house too has since been allocated to a family on the waiting list.
- 3.4 The Corporate Fraud officers have developed service specific fraud awareness training modules for Homelessness and Procurement staff and these will be delivered in the coming weeks.
- 3.5 The Council's policies on Anti Fraud and Corruption, Anti Bribery and Whistleblowing have been updated in line with current legislation and best practice.
- 3.6 As part of Internal Audit, the team have assisted with various audits, providing their view on the potential fraud aspects of areas under review and performing compliance testing on elements of the Code of Corporate Governance, Petty Cash procedures and the Construction Industry Scheme Audit.
- 3.7 The Fraud team have dealt with 28 enquiries from the Midlothian Council website page "Report - Fraud, Corruption and Whistleblowing."
- 3.8 As investigators, the team have conducted consultancy and investigation work for Resources and Education services in respect of thefts and recommended procedures to prevent further occurrences.
- 3.9 The fraud team are members of the Scottish Local Authority Investigators Group and represent Midlothian Council at their quarterly meetings, ensuring current practice is up to date.
- 3.10 The team 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.
- 3.11 The team have published fraud awareness raising articles in the Tenants' Newsletter and Inside Midlothian in order to encourage reporting of suspected frauds.

Longer Term

Much of the work outlined above will continue in future years however additional areas could be developed in the longer term as suggested below:

- 3.12 Undertake specific reviews in areas where the Council could be at risk from external fraud:
- council tax reduction, discounts and exemptions;
 - tenancy fraud (commercial and residential including sub-let, inappropriate use, inaccurate information provided impacting on housing allocation score);
 - licensing;
 - planning or development;
 - procurement;
 - invoicing;
 - funding provided to third parties;
 - direct payments for social care;
 - theft of council assets or data;
 - insurance claims;
 - Scottish Welfare Fund and Community Care Grants; and
 - blue badge fraud.
- 3.13 Undertake specific reviews in areas where the Council could be at risk from internal fraud:
- risk that employees could be in collusion with serious organised crime (for example procurement, planning, licensing, tenancy etc);
 - theft of council assets or data;
 - time abuse;
 - payroll and / or expense claim frauds; and
 - purchasing goods or services using Council funding for personal use.
- 3.14 The Corporate Fraud Team with the support of Internal Audit and the Integrity Group could develop further training programmes for managers and staff to highlight the risks and controls over fraud. As well as team training sessions, an on-line training package could be developed.
- 3.15 The Corporate Fraud team could look at the effectiveness of the control environment in relation to fraud prevention operated by the Council including use of risk assessments, staff vetting and local policies and procedures.
- 3.16 The Corporate Fraud Team could provide support to Internal Audit by assisting with compliance based reviews (for example recommendation follow ups).
- 3.17 Internal Audit plan to work closely with the Integrity Group to identify any risk areas for investigation.

4.1 Resource

There are currently two FTE fraud officers and support is provided to them by the Senior Auditor and the Audit Manager.

4.2 Risk

The report directly addresses fraud risk and proposes work that can be undertaken by the corporate fraud resource to reduce the risks within the Council.

4.3 Single Midlothian Plan and Business Transformation

Themes 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 by preventing and detecting fraud, additional resources may be available to support the Council's objectives.

4.5 Impact on Performance and Outcomes

The Council's performance and outcomes will be improved by preventing and / or detecting fraud.

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.

4.7 Involving Communities and Other Stakeholders

There are no communities or other stakeholder issues with regard to this report.

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 Summary

Midlothian Council continues to be responsible for non benefit fraud investigations and the prevention and detection of fraud. A Corporate Fraud team has been created and this report outlines areas where this resource could be best utilised.

6 Recommendations

The Audit Committee is invited to:

- note the content of the report; and
- discuss and suggest any other areas where the counter fraud resource could be effectively deployed.

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Appendices:

Appendix 1 – Savings and Fraud team activity

Actual Fraud and Error Identified in 2015/16

<u>Service</u>	<u>Fraud or Error Identified</u>	<u>Annual Sum Involved</u>	<u>Total Saving</u>
Council Tax Discounts and Exemptions ¹	£27,410	£20,767	£48,177
Single Person Discount – Electoral Register Match	£10,544	£9,860	£20,404
Joint investigation with Housing following NFI match resulted in the recovery of a Council house and return to available housing stock. Value per Audit Scotland guidance ²			£93,000
Joint investigation with Housing recovered a Council house and return to available housing stock. Value per Audit Scotland guidance			£93,000
Total Savings identified in year as a result of Corporate Fraud Activity			£254,581

Fraud Team Activity

	<u>Activity</u>
Council Tax Discounts and Exemptions Cases Investigated	206
NFI Single Person Discount – Electoral Register Match Cases Investigated	208
Housing referrals	30
Website referrals	28
Consultancies and Investigations	4
Internal Audit Compliance Testing	3
Presentations delivered	3
Policies updated	3

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.

² Audit Scotland has advised that the appropriate calculation for the loss in respect of a fraudulent tenancy is £93,000 per tenancy to cover 2 years homeless accommodation, legal and administrative costs and 2 years future savings, assuming an average tenancy period of 4 years.