

Meeting: Audit Committee
Date: 22 September 2014
Subject: Review of approach to Counter Fraud Activity following implementation of the Single Fraud Investigation Service
Report of: Charles Warboys, Chief Finance Officer
Summary: This report provides the Committee with an update on the recent review of the approach to counter fraud activity across the Council.

Advising Officer: Charles Warboys, Chief Finance Officer
Contact Officer: Kathy Riches, Head of Internal Audit and Risk
Public/Exempt: Public
Wards Affected: All
Function of: Not applicable

CORPORATE IMPLICATIONS

Council Priorities:

Financial:

1. The costs of the Benefit Fraud Investigation Team (BFIT) are currently met from the DWP Administration Grant (currently £1,169,000) and this is likely to reduce as Universal Credit Claims are rolled out across the country.
2. The DWP Administration Grant is used to offset the costs of assessing Housing Benefit, although this does not meet the full costs incurred, and the element of the grant for fraud administration is not separately identifiable. The staffing costs for the current BFIT are approximately £210,000.
3. The DWP have recently notified local authorities of the potential reduction in grant funding from 2015/16 and onwards. There are two options being considered at present and the preferred option will see no reduction in our grant funding as a result of SFIS in 2015/16 and a £96,366 reduction in 2016/17. The alternative option will see a £31,254 reduction in grant funding in 2015/16 and £96,366 in 2016/17.
4. The proposed establishment of a Corporate Fraud Team, as outlined in this report, will result in a reduction of 2 posts which will save approximately £65k per annum with on costs. Assuming there is no reduction in grant during 2015/16 and a reduction of £96k in 2016/17, the net financial impact of the proposal is summarised below:

	2015/16*	2016/17
	£	£
Reduction in staffing costs	60,000	65,000
Reduction in administration grant received	0	96,400
Net gain/pressure	60,000	31,400
	Gain	Pressure

*11 months, as transfer date 1st May 2015

5. Although there is a resultant budget pressure in 2016/17, the staff retained for a Corporate Fraud Team would be expected to be self funding, in that the financial value of fraud detected will outweigh the cost of employing the staff. The results achieved by the team will be recorded and monitored.
6. In July 2014 the DCLG announced a scheme which invites local authorities to submit a bid for funding that will result in financial savings through effective counter fraud activities. The total scheme is worth up to £16m over the financial years 2014/15 and 2015/16 and will start paying money to successful local authorities during the third quarter of 2014/15. A bid to enable targeted investigation of Council Tax Discount Fraud and Council Housing Fraud has been submitted. Since the outcome of the bid is uncertain, this has been excluded from the above figures.

Legal:

7. No implications arising from this report

Risk Management:

8. There is a risk that without sufficient resources being available to detect and investigate suspected fraud, the Council will not have assurance that it is fully meeting its statutory responsibility to protect the public purse.

Staffing (including Trades Unions):

9. There will be a restructure of the existing fraud team in accordance with the Council's Managing Change Process. As a result, 5 staff will be put at risk. However, it is anticipated that 3 staff will be retained and 2 will transfer to the Department for Works and Pensions (DWP) and it is therefore highly unlikely that this will result in any redundancies. There is a low risk that there maybe an impact on current resources if any of the staff at risk chose to leave prior to the transfer of Housing Benefit investigations to the Single Fraud and Investigation Service.

Equalities/Human Rights:

10. An Equality Impact Assessment will be carried out as part of the Managing Change Process.

Public Health:

11. No implications arising from this report

Community Safety:

12. No implications arising from this report

Sustainability:

13. No implications arising from this report

Procurement:

14. No implications arising from this report

RECOMMENDATION:**The Committee is asked to endorse the approach to:**

- **the establishment of a Corporate Fraud Team,**
- **the development of an annual counter fraud work programme, through closer working between the Corporate Fraud Team and Internal Audit, and**
- **the production of an annual report on counter fraud activity for presentation to the Audit Committee.**

Background

15. The Council is committed to a zero tolerance to fraud, corruption, bribery and money laundering within or against the organisation. This extends to all uses of public money by the Council's partners and contractors and also the community it serves.
16. The Audit Committee, at its meeting on 31 March 2014, received a report on the work of the Benefit Fraud Investigation Team. The report outlined the arrangements for the planned implementation of the Single Fraud Investigation Service (SFIS). As a consequence of the planned DWP changes a review has been conducted of fraud detection and prevention across the Council, identifying potential approaches. Consideration has been given to the existing arrangements, the impact of the introduction of the SFIS, the outcome of recent Audit Commission benchmarking, and other national developments in fraud detection and deterrence.
17. Currently, all Housing Benefit, Council Tax, Housing and NNDR fraud is investigated by the Benefit Fraud Investigation Team, which sits within Revenue and Benefits. The team comprises a team leader, four qualified fraud officers, one unqualified fraud officer and a clerical support officer. Internal Audit also has two trained investigators. Internal Audit coordinate the bi annual National Fraud Initiative (NFI) data matching exercise and also undertake ad hoc investigations, usually arising as a result of whistle blowing or other concerns raised into officer conduct. The teams work independently, but do liaise where appropriate.

18. This report updates the Committee on the DWP arrangements to implement the SFIS, summarises the findings of the review of the existing arrangements, and sets out the proposed approach to counter fraud activity across the Council following the transfer of staff to the DWP.

ISSUES

Introduction of Single Fraud Investigation Service

19. The Committee is aware that, as part of Welfare Reform, the DWP are creating a Single Fraud Investigation Service (SFIS). The SFIS will bring together council, DWP and HMRC investigation services under one umbrella to investigate all social security benefit fraud. The SFIS will provide a single service investigating and prosecuting the totality of the benefit offence and this will be done under one set of policies and procedures bringing together staff from DWP, local authorities and HMRC. It is proposed that local authority benefit staff will become SFIS employees and will be transferred to the DWP. The programme is being implemented on a phased basis and the transfer date for Central Bedfordshire Council is May 2015.
20. The DWP has confirmed the work that will transfer to the SFIS as being:
- Any allegation of Housing Benefit (HB) fraud from the public, staff or external bodies and
 - Any reasonable suspicions of HB fraud identified by the LA staff

Whilst the investigations of these cases will sit within the DWP Fraud and Error Service (FES) team, the amendment to HB cases, dealing with error, verification, and the calculation and recovery of overpayments will remain within the Council until such time as HB is replaced by Universal Credit.

21. The potential transfer of CBC Benefit Fraud Investigation Team (BFIT) staff to DWP could result in the loss of the specialist BFIT resource and the criminal investigative skills and specialist training from the Council. It is also anticipated that the grant funding received by the Council for this work will cease following the transfer of the function to SFIS. However, the SFIS will not be responsible for investigating non-benefit or local taxation fraud such as Council Tax Single Person's Discount or Tenancy Fraud. Local Tax Support will not be included in SFIS and the responsibility for protecting this fund will remain with the council.

Review of Current Arrangements

22. The introduction of the SFIS has provided a useful opportunity to review the current arrangements for counter fraud activity within the Council and to assess the potential fraud risks. Every year the Audit Commission undertake a fraud and corruption survey, and publish a summary report. The Protecting the Public Purse 2013 report, published in November 2013, has been used as a reference point for identifying and discussing potential fraud risks with officers across the Council. Meetings have been held with staff in service areas in order to gain an insight into the fraud risks in their area, and to assess whether better results might be achieved through a more joined up, corporate approach to fraud issues.

23. The interviews with staff confirmed that, whilst the potential for fraud is acknowledged there are a number of assurance mechanisms in place to mitigate the risks.

These include:

- Financial Procedures
 - Procurement rules
 - Other documented procedures within service areas
 - Internal Audit Assurance work
 - Internal Audit Pro active anti fraud reviews
 - Duplicate payment exercises
 - Insurance repudiation challenges
 - Segregation of duties
 - Monitoring by managers
 - External scrutiny (e.g. European Social Fund)
 - External assurance mechanisms, such as DBS.
 - SOVA training (SCHH)
 - Whistle blowing
24. Generally, staff within the Housing Team would refer any fraud concerns to the Benefits Fraud Investigation Team, whereas officers elsewhere are more likely to refer the matter to HR and/or Internal Audit. This is based on current working relationships within the Council, but also reflects relevant skill sets.
25. The interviews identified a number of areas for further development and improvement, including;
- A cohesive fraud awareness training programme, including Money Laundering Awareness
 - Updating and consolidating the various anti fraud policies in place (i.e. Confidential Reporting Policy, Money Laundering Policy, Anti Fraud and Corruption Strategy, the Housing and Council Tax Benefit Anti Fraud Strategy and the Housing and Council Tax Benefit and Sanctions Policy).
 - Better value for money may be obtained through a more joined up approach to data matching activity across the Council
 - Maintaining a central log for recording fraud. Separate logs are currently maintained within HR, Legal Services, Internal Audit and Revenue and Benefits.
 - Developing a more proactive approach to identifying fraud issues. Current work tends to be reactive rather than proactive.
 - Closer working between the Benefits Fraud team, Internal Audit and the Financial Investigation Unit.

Potential fraud risk areas were also considered during these interviews. A list of the fraud risk areas discussed is attached at Appendix C to this report. It is proposed that future counter fraud activity will further evaluate these risks and the feedback received during the interviews and will focus on the higher risk areas.

Benchmarking – The Local Picture and the National Picture

26. Following the Fraud and Corruption Survey 2013, the Audit Commission produced a fraud briefing for Central Bedfordshire Council, aimed at considering fraud detection performance, comparing the Council with similar local authorities. The survey, which was published in December 2013, compared the number of detected fraud cases at Central Bedfordshire Council with other Midlands and East of England metropolitan districts and unitary authorities. The results are summarised at Appendix A.
27. The summary shows that CBC has less detected fraud in each reported category. It should be borne in mind that detected fraud provides indicative rather than definitive information on levels of fraud. However, the summary does highlight areas which may benefit from further pro active work. It is not always possible to distinguish between fraud and error and councils may therefore adopt varying approaches to defining and reporting fraud.
28. The benchmarking shows that Central Bedfordshire Council had no reported instances of Council Tax discount fraud during 2012/13. This area is subject to periodic focussed review and no exercise was undertaken during 2012/13. However, during 2011/12 1,208 cases were identified and discounts totalling £400k were cancelled as a result. A further similar exercise is planned to be undertaken during 2014/15.
29. The national outcome of the fraud and corruption survey, as reported by the Audit Commission in their publication “Protecting the Public Purse 2013” is also summarised at Appendix B. This again provides useful raw statistical information that can be used to plan proactive prevention and detection work.

“Fighting Fraud Locally”

30. In April 2012 the Fighting Fraud Locally (FLL) strategy was published by the National Fraud Authority. This was developed in partnership with local government to tackle fraud committed against local government. The report focused on non-benefit fraud areas. In particular, FFL called on local government to adopt a strategic response to fraud that:
 - Acknowledges the threat of fraud and the potential for savings that exists;
 - Prevents fraud by improving fraud controls and developing a counter fraud culture, and
 - Pursues fraudsters with robust enforcement, to deter others.This publication would provide a useful reference point when updating our strategies and policies and procedures.

Draft CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

31. CIPFA has recently published a draft Code of Practice on Managing the Risk of Fraud and Corruption, aimed at encouraging good counter fraud practice across the public sector. They also intend to publish practical guidance to support the implementation of the Code.

32. The five key elements of the code are to:
- Acknowledge the responsibility of the governing body* for countering fraud and corruption;
 - Identify the fraud and corruption risks;
 - Develop an appropriate counter fraud and corruption strategy;
 - Provide resources to implement the strategy, and
 - Take action in response to fraud and corruption.

(*The person(s) or group with primary responsibility for overseeing the strategic direction, operations and accountability of the organisation. Examples include the Board, Council.)

33. The Code further suggests fraud work plans and operations are aligned to the strategy and that an annual report on performance against the strategy be produced, with conclusions featured in the Annual Governance Statement. Ensuring that the council's future approach to delivering counter fraud work is in compliance with the Code should promote good counter fraud practice.

Education Funding Agency Assurance for Schools

34. Each year Chief Finance Officers are required to confirm that they have fully deployed the Dedicated Schools Grant in support of the schools budget, in accordance with the conditions of grant and the School Finance (England) Regulations 2012.
35. This year Chief Finance Officers are required to report details of any fraud cases in maintained schools that they have dealt with during the year. This addition to the statement is intended to improve the transparency of information that local authorities already collect from maintained schools through the Schools Financial Value Standard.

Establishment of a Corporate Fraud Team

36. Senior management have agreed to establish a Corporate Fraud Team. The objective of the team will be to support the Council in delivering an effective counter fraud service. The Team will be resourced from existing staff within the Benefit Fraud Team and will continue to report to the Head of Revenues and Benefits. There will be no changes to the current structure within Internal Audit and Risk, but the two teams will work closely together to deliver a cohesive service.

37. An annual work programme will be developed. Work will include:
- Updating policies and procedures to ensure they remain relevant and reflect current best practice
 - Raising fraud awareness across the Council, including maintained schools
 - Continuing to investigate Council Tax and other fraud areas not transferred to the SFIS
 - Targeted pro active anti fraud reviews
 - Reactive work where potential fraud has been identified
 - Data matching exercises, such as the National Fraud Initiative (NFI)
 - Advice and Liaison
- The work programme will be jointly delivered by the Corporate Fraud Team and Internal Audit, with work assigned to staff with relevant skills.
38. An annual report on the outcome of the work programme will be prepared for senior management and the Audit Committee. The conclusions reached will be reflected in the Annual Governance Statement, as appropriate.
39. The provisional timetable for implementation is 1 April 2015.
40. The potential benefits of the proposed approach are:
- The retention of a skilled resource to investigate fraud risks not transferred to the SFIS
 - A refocus on the prevention, detection and investigation of fraud in line with best practice
 - Safeguarding public funds
 - Recovery of losses
 - Assurance to the Council that assets are safeguarded
 - Protection of reputation
 - Financial savings, although deliverable savings from anti fraud activity in areas other than Revenues and Benefits may be hard to quantify.

Conclusions

41. The establishment of a Corporate Fraud Team staffed by officers retained following the transfer of 2 staff to the SFIS will ensure that counter fraud activity such as the review of Single Person Discounts which has previously saved the Council c. £400k. can be continued.
42. The development and delivery of an annual counter fraud work programme and the production of an annual report will also enable the Audit Committee to monitor counter fraud activity across the Council.

Appendices:

Appendix A – Protecting the Public Purse - Fraud Briefing December 2013 – Summary

Appendix B - Protecting the Public Purse - The National Picture

Appendix C – Potential Fraud Risks Discussed with Officers

Background Papers:

None