



Committee report

Committee	AUDIT COMMITTEE
Date	25 JUNE 2015
Title	ANNUAL FRAUD REPORT 2014-15
Report of	BUSINESS IMPROVEMENT MANAGER

EXECUTIVE SUMMARY

1. The committee receives a report annually on the incidence of fraud and other irregularity experienced by the council during the financial year. As reported in previous years, apart from the issues arising from housing benefit and council tax benefit, incidents of known fraud continue to be rare, or certainly appear to be from the experience of this council.

BACKGROUND

2. The council continues to have a comprehensive array of strategies and associated policies to counter the risk of fraud and corruption, including:
 - Counter Fraud and Corruption Strategy
 - Codes of conduct
 - An Audit Committee
 - Financial regulations
 - Contract Standing Orders and associated Procurement Code
 - Policies and processes
 - Monitoring Officer and Section 151 Officer
 - A complaints procedure
 - A whistle-blowing procedure
 - Internal audit
 - Systems and controls which are designed to counter fraud and error
 - External audit
 - Compliance with transparency requirements
 - A dedicated benefits fraud team (see below)
 - Processes for managing risks
 - A comprehensive system of budget monitoring

STRATEGIC CONTEXT

3. As the steward of public funds and the custodian of significant public assets, the council must ensure that its operations are protected from fraud. If

undetected, fraud will mean that taxpayers' moneys and contributions received from service users will be wasted and not available for spending on services, placing even more pressure on the council's budget.

BENEFIT FRAUD

4. One area of significant fraud impacting on the council continues to be benefit fraud. Investigations into cases of suspected benefit fraud are undertaken by the specialist fraud team within Revenue and Benefits. This team has an excellent record of success. A summary of activity in relation to Benefit Fraud and some statistical data is shown in Appendix A to this report.
5. However, Members will be aware that the Government has created a Single Fraud Investigation Service (SFIS) to replace the existing arrangements whereby the Department for Work and Pensions (DWP), HM Revenues and Customs and Local Authorities employ their own investigators.
6. The DWP initially launched four SFIS pilots and their initial findings, published in 2013, indicated that the preferred delivery model would be to introduce SFIS as a single organisation within the DWP. This has now been implemented throughout 2014 and 2015. The timetable recently published confirms that the Council's fraud caseload will transfer to SFIS on 1 October 2015. This in practice now means:
 - The investigation of all Housing Benefit and historical Council Tax Benefit fraud will move to the DWP.
 - The council's Benefit Fraud Investigators could also transfer to DWP's employ.
 - The amendment of Housing Benefit and Council Tax Benefit claims will remain with the council.
 - The calculation and recovery of any Housing Benefit and Council Tax Benefit overpayments will remain with the Council.
 - SFIS investigators will request information and evidence from the council to support their investigation.
 - Any referral to SFIS that is rejected will be passed back to the council for compliance activity
 - A single prosecution body will be used, this being the Crown Prosecution Service.
7. The responsibilities to investigate non-benefit fraud such as Local Council Tax Support fraud, Housing fraud, Council Tax and Business Rates discounts and exemptions frauds will remain with the Council. However, the action required to protect these funds and services from fraud is discretionary.

NON- BENEFIT FRAUD

8. As stated earlier, aside from benefit fraud, there is little evidence of widespread fraud against the council. This has been reported in previous years and it is difficult to be specific about the reasons, but they will include:
 - Fraud exists , at least in minor amounts, but goes undetected or unreported
 - The controls highlighted at paragraph 2 above are effective at controlling the risk of fraud to a large extent
9. There has been one extensive investigation which has been conducted by the Police over the last two years, into the financial affairs of some council clients during the year. Concerns have been raised that for some vulnerable clients whose affairs were managed by non-council employees, their financial affairs were not well-managed. Criminal proceedings are now in hand but the case will not be heard until September. The committee will be kept informed of the outcome.
10. There has been only three fraud and other irregularity cases identified during the year. Two of those stemmed from whistleblowing and more information is given below. The third is still being investigated and the outcome is pending

WHISTLE-BLOWING

11. Again, as reported previously, there are very few incidents of whistle-blowing. The council has had a procedure for receiving and dealing with whistle-blowing for some years, but has never received many allegations through that particular route. It is only possible to speculate on the causes of that, but it may be because there are other routes which staff, members and contractors can use to report such allegations.
12. There were only four incidents of whistle-blowing recorded in the year, only one of which related to alleged financial irregularity. All were appropriately investigated and dealt with in line with the procedure.
 - One issue, raised anonymously, was concerned with an employee having outside business interests which potentially conflicted with his job role. Management action is being taken to control that risk.
 - The second (also raised anonymously) involved allegations that a former employee was continuing to claim that he was linked to the council as a way of being awarded work. The individual was informed that this was unacceptable. The policy related to this (employee code of conduct) will be reviewed to ensure that it is sufficiently robust in this regard.
 - An employee had been concerned that a statutory report which had been prepared for members contained misrepresentations. While the original issue had been closed, there is a need for it to be re-visited and the outcome of that review is awaited.

- The alleged treatment of a client by a member of staff whilst engaged as a locum with the Council was reported. The concerned the safety and welfare of children and young people who are within the care system. This case is pending and a report is awaited from the investigator.
13. The council continues to maintain a whistle-blowing policy for staff, members and the public <http://www.iwight.com/documentlibrary/view/whistleblowing-at-work-policy> which is intended to encourage people to raise their genuine concerns so that any malpractice or irregularity can be investigated and addressed.

FUTURE DEVELOPMENTS

14. Despite the recent record of this council and its experience of fraud, a review is needed to take account of a number of issues, including:
- The implications of the transfer of the Benefits fraud responsibilities to the SFIS referred to at paragraph 6 above;
 - New internal audit arrangements and the ongoing capacity to investigate fraud and other irregularity
 - The potential for a lack of reporting of fraud which might mean that fraud is more prevalent than indicated by recent reports
 - A need to review and as a result, revise a number of the policies related to fraud and its management.
 - A need to review the whistleblowing policy and potentially a campaign to raise awareness of whistleblowing and how people can go about it including messages from senior officers that communicate that we encourage people to speak out including examples that have resulted in something happening for the better
 - A need to consider the impact of the ongoing austerity programme and its effect in particular on the system of internal control. This is an issue which is highlighted on other reports (on risk, the annual governance review and the head of audit 's annual review)

Further work is needed across the summer to undertake this work and it is proposed to report back to the committee when it next meets with the results.

CONSULTATION

15. Only internal consultation has taken place over this report, liaising with those responsible for receiving and recording incidents of whistle-blowing (Human Resources) and for investigating allegations of benefit fraud (Revenues and Benefits), and with senior management who are often the recipients of allegations of irregularity.

FINANCIAL / BUDGET IMPLICATIONS

16. Fraud, if undetected will have a direct impact on the council's financial well-being and will deny the use of resources for service delivery or to meet the council's savings requirements.

LEGAL IMPLICATIONS

17. There are no direct legal implications of this report. The council has a duty to administer its financial affairs in a proper manner. Part of that requirement is that the council must protect itself, tax payers and service users from the risk of fraud and other irregularity. The council's legal team play an important part in supporting the successful prosecution of benefit claimants who have made fraudulent claims.

EQUALITY AND DIVERSITY

18. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

RISK MANAGEMENT

19. It is important for the council to recognise the risk from fraud. That means it must continue, as a minimum, to use the measures that are set out in paragraph 2 to counter that risk. Investment in anti-fraud measures can be cost-effective in reducing the cost of fraud which has the potential to impact on over £300 million of council spending and income. There is a fraud risk held on the council's risk register intended to manage the risk of fraud and to ensure that controls continue to operate to counter the risk.

RECOMMENDATION

20. To consider the report of the Business Improvement Manager and agree any further information or action as required.
21. To agree that the Committee receives a report on fraud and its management when it next meets in September.

APPENDICES ATTACHED

22. [Appendix A](#) – Summary of Benefit Fraud 2014-15

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