

**To the Chair and Members of the Audit Committee**

**INTERNAL AUDIT TEAM – ANNUAL FRAUD REPORT 2015/16**

**EXECUTIVE SUMMARY**

1. This report collates and summarises the work done by the Council during 2015/16 to prevent, detect and investigate fraud and corruption in line with the Government's *Fighting Fraud and Corruption Locally* strategy.
2. It should be noted that the incidence of fraud remains very low in overall terms taking into account the Council's activities. Despite this, fraud risks for the Council continue to increase (as does the fraud risk to the UK economy) with cyber fraud being the highest current threat to the Council.
3. Responsibility for the investigation of housing benefit fraud passed during the year (September 2015) to the Single Fraud Investigation Service (part of the Departments for Work and Pensions). As a result, some figures on detected fraud rates are unavailable (when compared to previous years), as little is known of the result of investigations since they were transferred to the SFIS.
4. In previous years the Annual Fraud Report was primarily a results based report, highlighting cases of fraud and work done to prosecute offenders. This year's report, attached, aims to capture not only the results of work undertaken but to also explain the Council's counter fraud response as a whole, including the acknowledgement and examination of the Council's risks in terms of fraud and corruption.
5. Significant amounts of time and resources were invested in 2015/16 in fraud awareness training for senior managers, key employees and elected members, in total covering 98 officers and 20 elected members. Work is now underway to convert the material into an e-learning package for wider release. Also during 2015/16, an external consultant was brought in to review and assist with the construction of fraud risk registers for the Council. Work is continuing in 2016/17 to review risk exposures and the controls in place to manage these risks to ensure that the Council's response is robust. A further report will be presented to the Audit Committee in November 2016 showing the risks identified and the corresponding mitigating actions in place.

**EXEMPT REPORT**

6. This report is not exempt

**RECOMMENDATIONS**

7. **The Audit Committee is asked to support the production of the Counter Fraud Report and agree to appropriate publicity being produced to highlight the outcomes from the Council's anti-fraud activity and to act as a deterrent to fraud.**

## WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?

8. Fraud and corrupt activity divert scarce resources away from Council services. The cost the tax payer money that could have been used for the benefit of local citizens. Maintaining a strong counter fraud stance helps to minimise fraud losses and deter fraudulent activity

### Background

9. The production of an annual fraud report, which details the work done to counter fraud and corruption, is in line with good practice recommended by CIPFA. Doncaster Council aims to foster a zero tolerance approach to fraud and seeks to educate staff on identifying fraudulent behaviour, educate managers to assess the risks of fraud in their areas and to detect and investigate fraud where it is identified. The Council's commitment to combatting fraud and corruption is contained in the Anti-Fraud and Corruption Framework which is approved by the Audit Committee.

## OPTIONS CONSIDERED AND REASON FOR RECOMMENDED OPTION

10. It is best practice to produce an annual report identifying the Council's response to fraud risks and the results of its anti-fraud and corruption work.

## IMPACT ON THE COUNCIL'S KEY OUTCOMES

	<b>Outcomes</b>	<b>Implications</b>
	<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Be a strong voice for our veterans</i></li> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	<p>The safeguarding of public monies and the recovery of overpayments (fraud and error), ensures that monies are available to fund essential services and reduce the pressure on the Council's finances.</p>
	<p>People live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	<p>The safeguarding of public monies and the recovery of overpayments (fraud and error), ensures that monies are available to fund essential services and reduce the pressure on the Council's finances.</p>
	<p>People in Doncaster benefit from a high quality built and natural environment.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	<p>None</p>

	All families thrive.  <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	None
	Council services are modern and value for money.	The safeguarding of public monies and the recovery of overpayments (fraud and error), ensures that monies are available to fund essential services and reduce the pressure on the Council's finances.
	Working with our partners we will provide strong leadership and governance.	Working with our partners to combat fraud and corruption is important to protect the overall public purse. The Council works with St Leger Homes to combat tenancy fraud and actively participates in the National Fraud Initiative to identify and combat fraud across the public sector.

## **RISKS AND ASSUMPTIONS**

11. Failure to address fraud and corruption risks causes:-
- reputational damage to the Council from fraud and corrupt practices;
  - diverts scarce resources away from priority services to the detriment of our citizens.
12. Doncaster Council manages these risks by assessing its exposure to fraud and by putting in place controls to mitigate the risks identified.

## **LEGAL IMPLICATIONS**

13. The Council is obliged to minimise the loss of resources resulting from fraud and corruption. It is also obliged to publish the data in the Annual Fraud Report under the requirements of the Transparency Agenda. This information will be published on the Council's website.

## **FINANCIAL IMPLICATIONS**

14. Failure to minimise and effectively deter and combat fraud and corruption detracts from Council funds and therefore Council service delivery.

## **HUMAN RESOURCE IMPLICATIONS**

15. None

## **TECHNOLOGY IMPLICATIONS**

16. None

## **EQUALITY IMPLICATIONS**

17. Every citizen in Doncaster is affected by fraud in the UK economy both as a result of fraud committed against themselves and fraud committed against the Council. Whilst every citizen is affected, fraudsters generally target citizens with protected characteristics such as the young, the elderly, those with mental health issues or those with learning disabilities.

## **CONSULTATION**

18. None

## **BACKGROUND PAPERS**

19. The Council's Anti-Fraud and Corruption Framework

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## **Appendices**

**Appendix 1** – Internal Audit – Counter Fraud Report 2015/16

**Simon Wiles**  
**Director of Finance and Corporate Services**

# **Internal Audit – Counter Fraud Report 2015/16**

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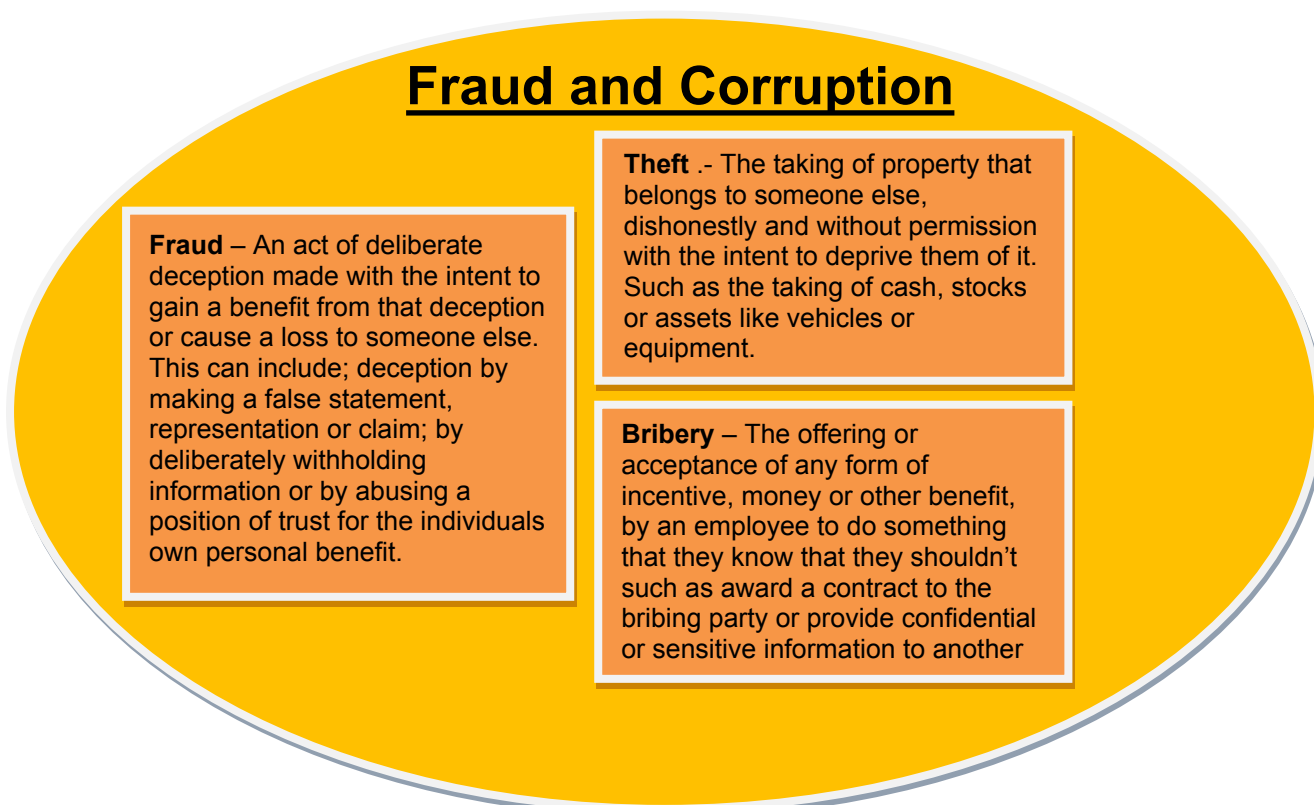
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## 1. Introduction

- 1.1. This fraud report is produced by Doncaster Council to raise awareness of the work the Council undertakes to manage the risk of fraud and corruption. It brings together, in one document, a summary of the outcomes of our work to prevent and detect fraud and corruption.
- 1.2. Doncaster Council employs over 9,000 people (including authority schools) and has a yearly revenue gross expenditure of over £660m and capital spending of over £133m (these figures are from the 15/16 Draft Statement of Accounts).
- 1.3. Like any organisation of this size, the Council can be vulnerable to fraud and corruption, both from within and from outside the organisation. The Council aims to minimise its risk of loss due to fraud and corruption recognising that any loss incurred is carried by the honest majority. The Council has a duty to the public to protect the resources under its control.
- 1.4. Any instances of fraud, corruption and/or other dishonesty endanger the achievement of the Council's policies and objectives as they divert its limited resources from the provision of services to the people of Doncaster. They also undermine the Council's reputation and threaten its financial standing. Consequently, the Council is determined to eliminate fraud and corruption where possible. This commitment is made in the Council's Anti-Fraud, Bribery and Corruption Framework.

## 2. What is fraud and corruption?

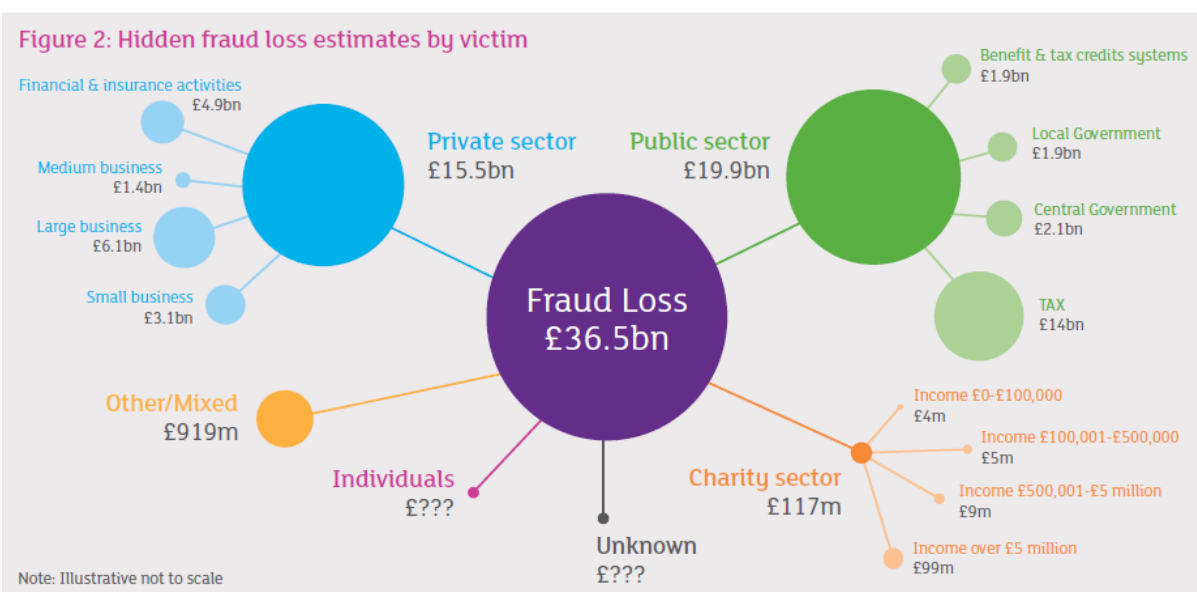
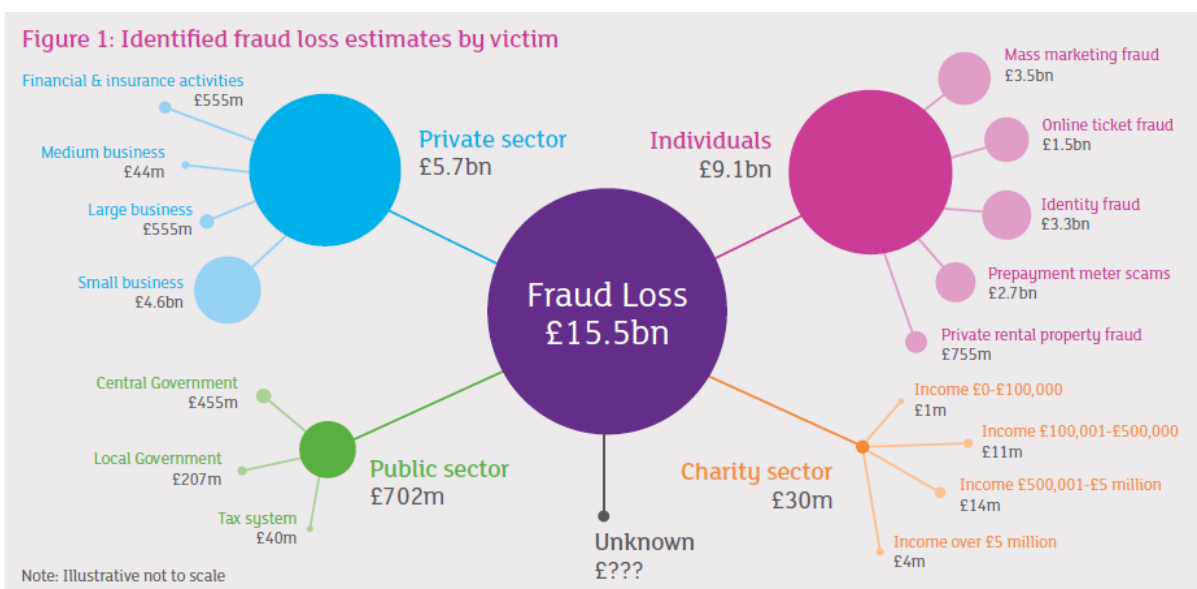
- 2.1. Fraud and corruption is the general name given to any acts of fraud, theft or bribery that occur or are attempted. Fraud, theft and bribery are each defined in law.



- 2.2. All of these acts involve 2 key elements; dishonesty and personal benefit or gain. Personal gains don't need to involve money. A personal benefit or gain can be goods or services received or even escaping a penalty or fine. While most fraud is low level, some fraud is as a result of serious organised crime, such as insurance fraud.
- 2.3. It should be noted, that whilst the Council has a zero tolerance approach to fraud and corruption from both within and externally, it is impossible to stop fraud from occurring due to its covert nature.

### 3. The scale of the problem

- 3.1. Estimates from the last co-ordinated indicator provided by the National Fraud Authority in 2013 put fraud loss in the UK at an estimated £52bn (see below). The latest indicators available put fraud loss much higher at around £193bn, although there are big differences in the way the figures are calculated as there is no one definition or accepted method with which to estimate the true scale of fraud loss.





3.2. Whichever estimation version is used, the scale of fraud is a serious issue to all individuals, businesses and authorities consuming valuable resources. The majority of fraud is however, undetected and reducing fraud is a serious challenge for us as a council.

#### 4. The Council’s strategy for combatting fraud and corruption

4.1. The Council has developed and published its own strategy for combatting fraud and corruption, the Anti-Fraud and Corruption Framework. This was based on current best practice and is compatible with the Government’s *Fighting Fraud and Corruption Locally Strategy 2016-2019*. The Council’s approach is divided into 3 main areas of focus; (1) acknowledgement of our risks, (2) prevention and detection work and (3) the pursuit of those that abuse the public purse whenever it is in the public interest to do so:



Fighting Fraud and Corruption Locally 2016-19

4.2. Each of these elements and the work we have undertaken in each of these areas is discussed in sections 5 to **Error! Reference source not found.** of this report.

#### 5. Counter Fraud Activity – Acknowledging fraud risks



5.1. The shape and activities of the Council are constantly changing to keep pace with the changes in economy, society and political environmental within the UK. These present different fraud risks that must be taken into account if the Council is to tackle fraud and corruption effectively. This section of the report tackles how we acknowledge our risks and is divided into 3 main themes; acknowledgement of the Council’s role and responsibilities for detecting and preventing fraud; acknowledgement of our fraud risks and training and awareness activities.

#### The Council’s Role and Responsibilities

5.2. The Council acknowledges its duty to protect the public purse and pursue fraud and corruption as outlined in the Anti-Fraud and Corruption Framework approved by the Council. Fraud awareness and the assessment of fraud risks has been a key element of the counter fraud activities for 2015/16 and this continues to be supported throughout the organisation by Senior Management.

5.3. From the 1st September 2015, 3 members of staff from the Council’s Benefits Enforcement Team were transferred to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS), who took over responsibility for Housing Benefit Fraud Investigations. This represents a significant change in anti-fraud responsibilities; the Council retains the duty to prevent fraud and error in

respect of Housing Benefit and Local Council Tax Support, and has a new duty to work collaboratively with SFIS, but it is now the responsibility for the investigation of these frauds that has passed to the DWP. The Council has retained the services of 1 accredited counter fraud officer and the Enforcement Team Manager to support the relationship between the Council and the DWP. Their retention also provides the Council with some additional counter fraud resources that are no longer solely dedicated to the pursuit of housing benefit fraud.

- 5.4. All allegations of Housing Benefit fraud received from the general public or through staff suspicions are now referred to DWP.
- 5.5. The Council retains responsibility for all other fraud elements outlined in the fraud risk register.

### **Acknowledge fraud risks**

- 5.6. The Council successfully applied for funding in order to undertake a project to improve fraud awareness at the Council during 2015/16. An external specialist was commissioned to help the Council further develop its fraud risk registers and to deliver fraud risk awareness training to senior managers and elected members. The project has now been completed.
- 5.7. The Council's overall inherent fraud risk level is considered to be medium, which would be typical for an organisation of this size. The risk is mitigated through a series of internal control activities. A significant emerging risk the Council faces is that of cyber fraud. Technological advancements have over the last 10 years provided fraudsters with a powerful all reaching series of tools with which to exploit the vulnerabilities of individuals, businesses and councils alike. In order to combat these risks, the Council's ICT Team has developed a Cyber Security Incident Response plan.

### **Training and awareness activities**

- 5.8. As outlined in paragraph 5.6, during 2015/16 the Council undertook a series of fraud risk workshops and fraud risk training events for senior managers, key personnel and elected members. These were to raise the awareness amongst officers and elected Members of the risks that the Council faces and the role officers and elected Members play in mitigating these risks on behalf of the Council. 98 officers and 20 elected members received detailed training on this issue. Feedback from the training events was very positive.
- 5.9. Further awareness sessions are planned for 2016/17 to ensure that a high level of awareness is maintained. This will include the conversion of the training material from the face to face sessions into e-learning training material so that it can be cascaded to other officers of the Council and used on a refresher basis. This electronic training is anticipated to be in place by December 2016.
- 5.10. In addition to the above, the Council's ICT Team has released training covering spam emails, viruses and ransomware in order to educate officers and elected Members to minimise the risks of exposure to cyber fraud.

## 6. Counter Fraud Activity – Preventing, Detecting and Pursuing Fraud



6.1. Preventing fraud through the use of robust internal controls is a function of management throughout the Council and forms the Council's first line of defence. Robust management oversight, through for example exception reporting, forms a second line of defence. Internal audit forms the third line of defence and adds value by ensuring that the first 2 lines of defence are robust and are working effectively.



6.2. Internal Audit supports the prevention, detection and pursuit of fraud through various activities on the internal audit plan and this supplements other counter fraud activities provided in other areas.

6.3. In 2015/16 the following work was completed in respect of counter fraud and fraud detection activities by Internal Audit Services:

- Fraud awareness and fraud risk training for senior managers and elected members. In total 98 senior managers and key employees were trained and a further 20 elected members.
- Review of the Council's fraud risk registers (this is earlier in this report).
- Advice and consultancy on the suitability of the Blue Badge Enforcement Strategy.
- Proactive fraud detection work and the investigation of subsequently identified anomalies. This initiative seeks to maximise the use technology can play in identifying data anomalies for investigation. The Internal Audit Team seeks to utilise technological capabilities wherever possible to minimise costs whilst maximising any error or fraud detection possibilities. Work in this area included data matching between payroll and creditors information (to identify employees who are also supplying the Council) and data matching purchase card transactions to employee working arrangements to identify unusual transactions and inappropriately used purchase cards. A summary of work undertaken in this area is shown below:

Description	Number of Anomalies Investigated	Investigation Results
Payroll to creditors matches	103 Council Matches 110 Schools Matches	All matches, except one which is to be completed, have been investigated. The majority were explainable (for example common names like Smith) but around 10% were identified conflicts. These were investigated and not deemed to be a risk to the Council due to the nature of the conflict and the employee's role in the Council.

Description	Number of Anomalies Investigated	Investigation Results
Purchase card payments employee working arrangements and payroll leavers (to detect misused credit cards and non-cancelled cards)	6 matches were made between active card holders and employees who had left their jobs.  Working arrangements testing identified 23 anomalous card uses	4 matches were identified involving employees changing roles and were therefore satisfactory. 2 active cards were detected for 2 actual leavers. Neither card had been fraudulently used.  It was identified these cards had been used on non-working days and on weekends but that the employees had done overtime or additional hours or that their roles were such that out of hours transactions were expected. All such purchases were satisfactorily explained.

- The Council uses specialist software to identify potential duplicate payments on a daily basis. However, during a system change in 2015, these checks were not able to be completed. For this period, Internal Audit performed computer interrogation checks that identified duplicate invoices totalling £276k, which are now being recovered.
- Internal Audit has also completed responsive investigations designed to investigate and pursue fraud once identified. A summary of completed cases is shown below (this is in summary form only so as to protect confidentiality and the Council's interests where necessary).

Notes / Details	Value
A false claim was received for a start-up business grant from Business Doncaster. Audit investigation revealed bank statements submitted in support of the application were false, as were invoices for business start-up costs received from the applicant. As a result of the investigation payment of the fraudulent claim was prevented. The applicant has absconded.	£25,000 detected and prevented
Suspected false invoices were received from a supplier undertaking mental capacity assessments on the Council's behalf. 4 suspicious invoices were identified where the dates of the assessment visits did not match the records of the various care homes. Use of this supplier was discontinued and improvements were made to internal checking controls to strengthen them for future use.	£800 detected
Monies were stolen from a school office for school lettings. These monies had not been properly safeguarded. Advice was given to improve school cash handling but there was insufficient	£300

Notes / Details	Value
evidence to take this case further.	
Anomalous transactions were identified in a school voluntary fund. A case was investigated concerning unusual transactions in the schools voluntary fund. On investigation, it was clear that the schools agreed policy allowed expenditure of the type in question. Advice and support was given to ensure that the policy was amended to meet best practice. No fraud was detected.	£0
Fraud allegations, against the building control service, were received from an external competitor of the service. These were investigated in full and no fraud or malpractice was identified	£0
A possible conflict of interest was also identified between 2 companies bidding for work from the Council. The 2 suppliers were found to be one and the same company attempting to bid for the same contracts, representing an external attempt at supplier fraud. Due to the fact that other suppliers were also included on tenders that were not related to either suspected supplier, it is not believed that there has been an impact on the Council in terms of the cost of any procurements.	£0

- The Council participates in the NFI (National Fraud Initiative). Run by the Government's Cabinet Office, the NFI matches electronic data within and between some 1,300 public and private sector organisations. The initiative works by comparing different sets of data, like payroll and housing benefits records, and flagging unusual combinations such as any person claiming housing benefits from more than one local authority or any person claiming housing benefits while failing to disclose his/her employment etc. The investigation of subsequent matches is a significant task for the Council. Investigation of matches for the 2015/16 financial year found 1 instance of fraud and 87 errors with a saving of £43,082.

6.4. In addition to the work completed above by Internal Audit the Revenues and Benefits Enforcement Team, in addition to their role as SPOC for the Single Fraud Investigation Service (for the investigation of housing benefit fraud), the Enforcement Team completed the following counter fraud support work:

- Before the transfer of responsibility to SFIS in September 2015, the Enforcement Team obtained 46 successful prosecutions for housing and council tax benefits and issued 6 formal cautions and 4 administrative penalties. 117 referrals for housing benefits fraud have been made to SFIS for suspected frauds after responsibility transferred to the DWP. There have been no recorded sanctions issued by SFIS in relation to these referrals so far.
- FERIS (Fraud and Error Reduction Incentive Scheme). FERIS is an incentive scheme that offers a financial reward to local authorities that find reductions to

Housing Benefit entitlement, as a result of claimant error or fraud. The scheme aims to encourage Council's to find and action changes in circumstance which reduce housing benefit entitlements. This can be by finding / detecting unreported changes in circumstances and by encouraging / reminding benefit claimants to report changes in their circumstances promptly. The team used 3 visiting officers to proactively target (on a risk basis) the benefits caseload to ensure claims are complete and accurate. The team bid for monies from the FERIS start up fund to undertake this work totalling £41,009.

- Council Tax Reduction Scheme data matching. In June 2015, the National Fraud Initiative launched a flexible matching service for council tax reductions. The Council was proactive in signing up to this matching service which resulted in overpayments of council tax reduction totalling £5,646. A further £7,040 in overpayments / fraud was prevented (this is what is known as a notional saving). These are essentially estimates of the future loss prevented by the early detection of fraud and error compared to the average length of a detected fraud or error).
- Participation in the above suggested that there were further savings to be made in this area. The Enforcement Team conducted other interventions on council tax reduction cases where claimants were identified as having earned income. This exercise resulted in the identification of £22,568 with the prevention of further loss (notional savings) of £26,226. A further council tax exercise was also undertaken on claimants in receipt of DWP benefits. This resulted in a further £51,303 of overpayments being detected and further notional savings of £17,451. Due to the effectiveness of both of these exercises, these exercises have been integrated into the Enforcement Team's risk based checking and interventions programme for 16/17.
- New homes bonus exercises. The new homes bonus is a scheme introduced by the government that gives a financial incentive for councils to build new homes or return long term empty properties (properties that have been empty for 6 months or more). Once triggered, the financial incentives as a result of these properties are payable for 6 years and are based on the value of the council tax band that the identified or new property resides in. By incorporating credit referencing information into their enquiries, the Enforcement Team identified 168 long term empty / new properties that were investigated and found to be inhabited. This equates to £190,228 in new homes bonus payments generated this year and for the next 5 years.

## **7. Action plans – The Way forward**

- 7.1. It is important that the Council maintains its focus on counter fraud activities and on fraud detection to discharge its responsibility to safeguard the public purse. The Internal Audit plan for 2016/17 contains allowances for both proactive counter fraud work on such as data matching initiatives, the NFI and responsive investigation time. Anti-fraud reviews are also planned on some key governance initiatives such as declarations of interest and declarations of gifts and hospitality to ensure that the Council's arrangements are robust.

- 7.2. The Enforcement Team is set to continue its risk based approach to detect fraud and error and maximise the resources available to the Council.
- 7.3. Technological opportunities to exploit the large amount of data held by the Council and its partners will continue to be investigated to increase fraud detection rates, increase the timeliness of error detection, protect the public purse and minimise the costs to the Council.
- 7.4. The Council is committed to keeping abreast of the latest developments in fraud, fraud risks and best practice in counter fraud areas and will continue to monitor developments in these areas to ensure that the Council's response remains proportionate and effective.
- 7.5. Fraud risk registers will be discussed with directorate managers to review the Council's residual exposure to fraud risks. These will be managed and an overall fraud risk will be added to the Council's strategic risk register.
- 7.6. Fraud awareness training and money laundering training will be released during 2016/17 as an electronic training course. Roll out of this course will improve fraud awareness and staff awareness of individual responsibilities across the Council.

## **8. Reporting Concerns**

- 8.1. If you have any concerns, please report your suspicions as quickly as possible together with all relevant details. You can report any concerns to the Internal Audit fraud hotline on 01302 862931 or using any of the methods or contacts identified in the Whistleblowing Policy.
- 8.2. Alternatively you may prefer to put your concerns in writing to the:  
Head of Internal Audit  
Internal Audit Services,  
Civic Office,  
Waterdale,  
Doncaster,  
DN1 3BU  
  
Please mark the envelope — "CONFIDENTIAL — TO BE OPENED BY THE ADDRESSEE ONLY".
- 8.3. The Council would prefer you not to provide information anonymously as any subsequent investigation could be compromised if we cannot contact you to help gain a full understanding of the issues. However, we will still consider anonymous information that is received. All reported suspicions will be dealt with sensitively and confidentially.
- 8.4. If you wish to report any suspicions in relation to Benefit Fraud please contact the team on their benefits fraud hotline on 01302 735343 or complete the online form "Report a Benefit Cheat ". This can be found on the Council's website