

**To the Chair and Members of the
AUDIT COMMITTEE**

ANNUAL FRAUD REPORT – 2012/13

EXECUTIVE SUMMARY

1. Attached at **Appendix A** is the Annual Fraud Report 2012/13. The purpose of the report is to bring together in one document a summary of the work which has taken place in the period to prevent and detect fraud and corruption.
2. It should be noted that the incidence of fraud remains very low in overall terms, taking into account the Council's activities and spending.
3. Despite the current economic conditions (which might increase the risk of fraud), the number of suspected fraud cases investigated by Internal Audit fell for the 2nd year running. Whilst it is difficult to determine the reasons for this it is felt that the strengthening governance arrangements have contributed, including anti-fraud and corruption work being led by the Council's Governance Group and Internal Audit. Awareness of fraud however, does need to be increased to ensure that all relevant cases are being properly referred.
4. Notwithstanding this, investigation of cases highlighted by the Audit Commission's 'National Fraud Initiative' identified savings for the Council in excess of £23,700. These were recoveries made where it was identified that single persons discount was being improperly applied due to minors resident in the property turning 18.
5. The work on single persons discount fraud was not fully completed due to time constraints as a new council tax system was introduced. However, external services are being procured to undertake a full single persons discount matching exercise in 2013/14.
6. The Council investigated 1052 potential fraudulent benefits cases (1137 in 2011/12) and, from these, obtained 30 prosecutions (57 in 2011/12) and issued 74 cautions and penalties (164 in 2011/12). This drop in the number of penalties applied is reflective of the state of the economy and the difficulties in recovering these financial based penalties.
7. The Council has a zero-tolerance to fraud and corruption. It is proposed to publish the Annual Fraud Report to help the Council demonstrate this commitment and act as a deterrent to further fraud.

RECOMMENDATION

7. **The Audit Committee is asked to support the production of the 'Annual 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.**

BACKGROUND

8. 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 has 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.

9. During 2012/13 as part of delivering our anti-fraud and corruption strategy, the Council has:

- Reviewed and revised the existing Anti-Fraud and Corruption Framework
- Continued work on the action plan created during 2011/12 after a comprehensive self-assessment on Doncaster Council's arrangements to manage fraud risks highlighted within the following publications:
 - Guidance issued by the Secretary of State for Justice on the Bribery Act 2010
 - CIPFA Managing the risk of Fraud 2 (the Red Book)
 - The Audit Commission's Protecting the Public Purse.

This action plan and associated progress is being reported separately to the July Audit Committee.

- Created and populated fraud and bribery risk registers for Doncaster Council. These have been used to undertake anti-fraud and corruption reviews and strengthen any control weaknesses identified.
 - Prepared and submitted the data sets required for use in the 2013/14 National Fraud Initiative exercise.
10. Priorities for the coming year are to:
 - Review the National Fraud Initiative (NFI) matches from the 12/13 exercises and make appropriate recoveries
 - Oversee the implementation of the agreed management actions arising from the self-assessments re the Bribery Act, Protecting the Public Purse and Managing the risk of Fraud assessments

- Deliver further anti-fraud and corruption reviews in key risk areas of the council as identified through our Fraud and Bribery Risk Registers
- Deliver a programme of fraud risk training via an e-learning self-assessment tool for employees/managers
- Highlight the consequences of committing fraud e.g dismissal, prosecution etc via several media methods, to increase deterrence.

OPTIONS CONSIDERED AND RECOMMENDED OPTION

11. Awareness of fraud is an integral part of preventing and detecting it. The publishing of this report acts as a deterrent and emphasises the Council's stance on fraud and corruption.

IMPACT ON THE COUNCIL'S KEY OBJECTIVES

12. Fraud prevention and management contribute to the effective management of the Council's risks, which in turn directly contributes to the achievement of the Council's goals.

RISKS & ASSUMPTIONS

13. Failure to maintain robust arrangements for the prevention and detection of fraud and corruption increases the risk of loss to the from fraudulent activity and damages the reputation of the Council.

CONSULTATION

14. None

FINANCIAL IMPLICATIONS

15. The outcomes from the Council's work in relation to preventing and detecting fraud and corruption are outlined in the attached report.

LEGAL IMPLICATIONS

16. The Council is obliged to minimise the loss of resources resulting from fraud and corruption.

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BACKGROUND PAPERS

Anti-Fraud and Corruption Framework

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ANNUAL FRAUD REPORT 2012/13



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1 INTRODUCTION

Doncaster Council has a zero tolerance to fraud and corruption

- 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 In the current economic position we might expect to see an increased risk of losses through fraud and corruption, as individuals and organisations look for ways to alleviate financial difficulties. In such a climate, the importance of minimising the risk of fraud is increased. It is important that we stay on our guard, as any public sector body can ill afford to suffer losses due to fraud when our own budgets are so constrained.
- 1.3 Doncaster Council employs over 13,900 people (including authority schools) and has a yearly revenue gross expenditure of over £726m and capital spending of over £121m. The Council paid over £117m to Housing and Council Tax Benefits claimants during the year. Like any organisation of this size, the Council can be vulnerable to fraud and corruption, both from within and outside the organisation. The Council aims to minimise its risk of loss due to fraud and corruption, recognising that any loss incurred may be borne by the honest majority.
- 1.4 Any instances of fraud, corruption and 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, as can be seen through the following commitment made in the Council's Anti-Fraud, Bribery & Corruption Policy:

“The overall attitude will be one of zero tolerance and the control regime, within the bounds of reasonableness, will promote this and will also aim to reduce losses due to fraud, bribery and corruption to an absolute minimum.”

2 PERFORMANCE SUMMARY FOR 2011/12

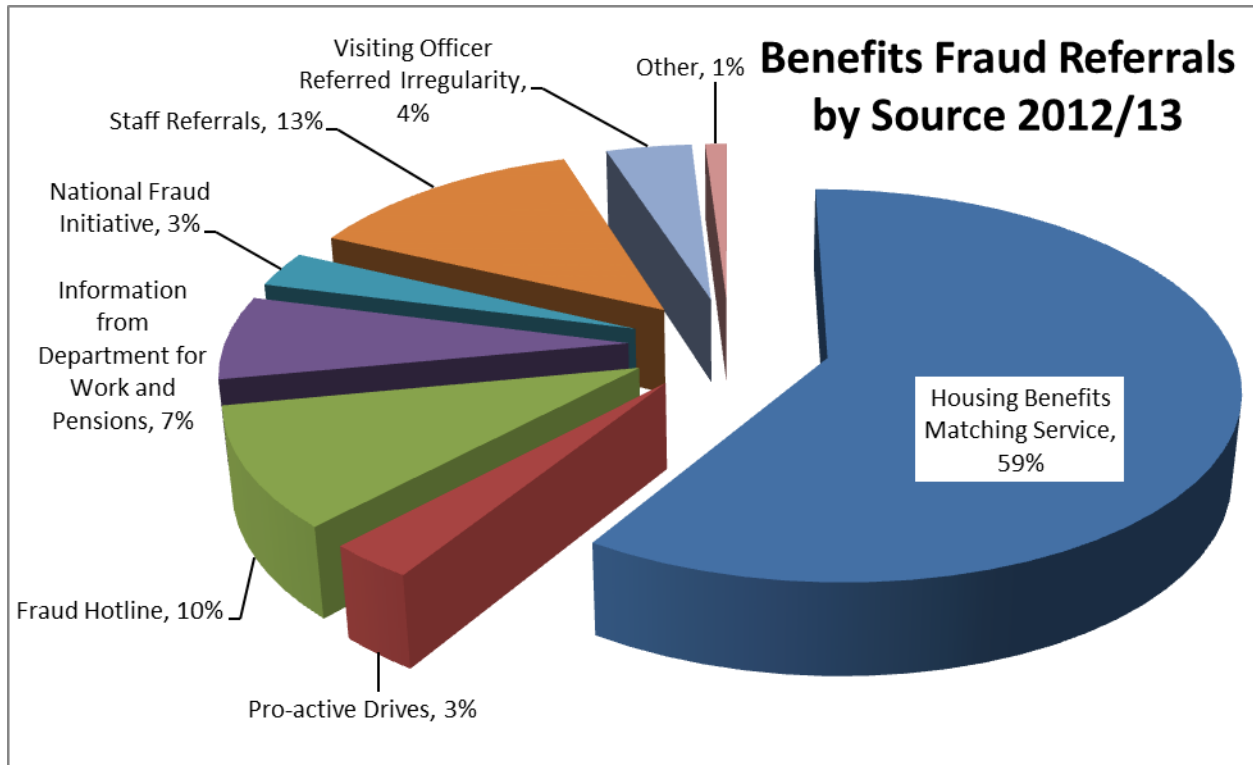
- 2.1 The Council's primary aim remains to stop fraud from occurring. The Council has recently updated its Anti-Fraud & Corruption Framework and created an action plan of practical measures to strengthen our arrangements in this regard.
- 2.2 In 2012/13, the Council's Revenues and Benefits Enforcement Team had 1,052 potential fraud cases referred to it and investigated 883. The service obtained 30 successful prosecutions for Housing and Council Tax Benefit Fraud (57 in 2011/12) and issued 56 formal cautions (104 in 2011/12) and 18 administrative penalties (60 in 2011/12). The reasons for these differences are examined in paragraphs 3.5 and 3.6 of this report.
- 2.3 Investigations of cases highlighted by the Audit Commission's 'National Fraud Initiative' of single persons' discounts identified savings in excess of £23,000 from 108 cases. A further 100 matches still being checked where occupants of the household have reached 18.
- 2.4 Excluding Housing Benefits, the level of fraud committed against the Council remains very low for the size and complexity of organisation.
- 2.5 There were no general cases of fraud exceeding £10,000 that needed to be reported to the Audit Commission in 2012/13 but there were 9 cases of benefits fraud over £10,000 that were reported.

3 HOUSING AND COUNCIL TAX BENEFIT

Benefit Fraud Investigations

- 3.1 It is recognised that the majority of people claiming benefits are honest and declare their correct circumstances when claiming benefit. Unfortunately, there are some who deliberately set out to defraud the benefit system. It is the job of the Council's Revenues and Benefits Enforcement Team (the Enforcement team) to prevent, detect and deter Benefit fraud.
- 3.2 The Team receives referrals of possible fraud cases from many sources. In 2012/13 in total the Enforcement Team received 1,052 fraud referrals. A breakdown of these referrals by source is shown below.

Benefits Fraud Referrals by Information Source (all cases)



Notes:

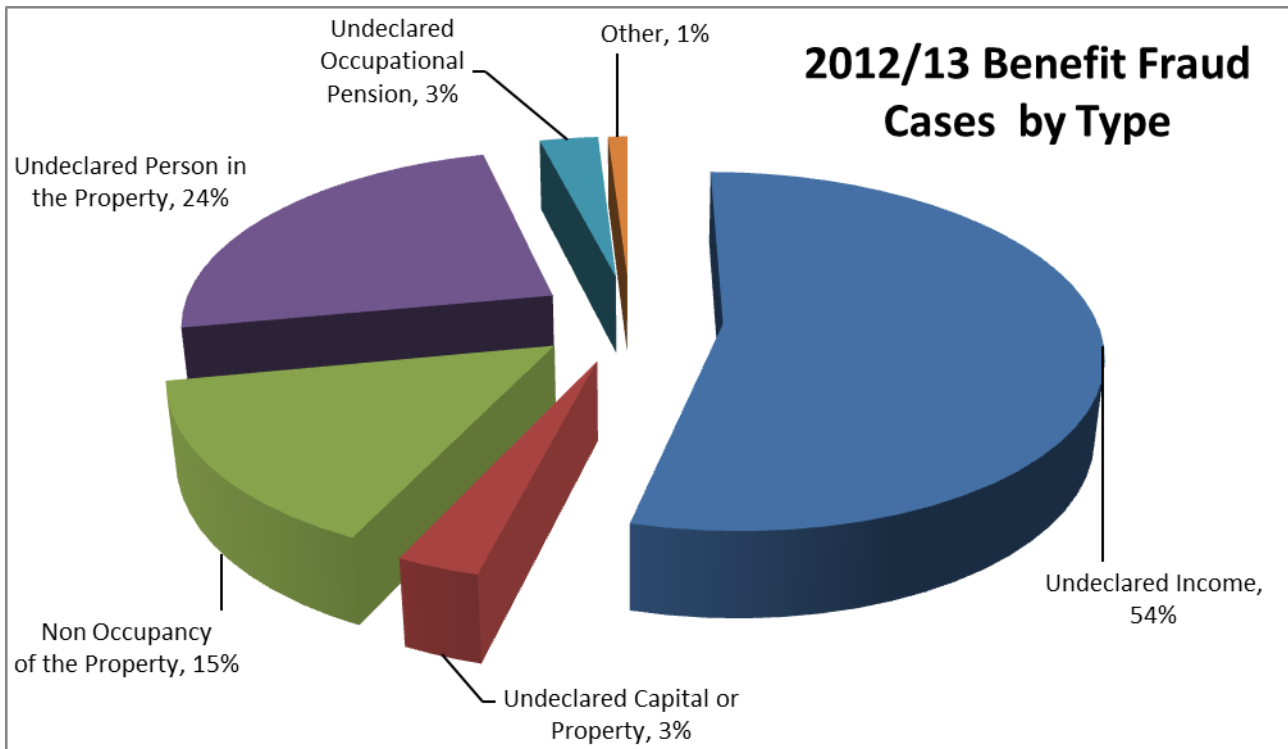
Housing Benefits Matching Service, this is a data matching exercise monthly matching Department for Work and Pensions and HMRC information to housing benefits information

National Fraud Initiative a data matching exercise carried out by the Audit commission to detect and recover fraud and error

Visiting Officers are employed by the Council visit certain claimants to update our records. Any potential frauds identified are referred for investigation

3.3 The Enforcement Team investigated 883 cases and found various types of fraud being committed as shown in the chart on the next page.

3.4 Frauds found by type



3.4 An example of the type of cases is provided below.

Benefits Fraud Case Study

A customer was referred for investigation due to the suspicion that his wife was living in the property. The information came from the National Fraud Initiative Data Match.

Checks were carried out and evidence gathered which linked the alleged partner to the customer's address for the period he had claimed benefit. Surveillance was also carried out which supported the fact that a couple were residing at the claim address.

This was a joint investigation with the Department for Work and Pensions as they were paying the customer Pension Credit. The claimant admitted his partner had been living with him for the last 3 years. Following adjudication, overpayments totalling over £8,700 were confirmed. The Magistrates made a Community Order and imposed a Curfew for 3 months.

By working jointly with the Department for Work and Pensions the full fraud was brought before court allowing the correct punishment to be administered.

3.5 A summary of the number of prosecutions, cautions and administrative penalties is shown in the following table.

Number of formal actions taken - 2009/10 to 2012/13 – Benefits Fraud:

Year	Formal Cautions	Administrative Penalties	Successful Prosecutions	Total Sanctions
2009/10	79	110	32	221
2010/11	65	79	38	182
2011/12	104	60	57	221
2012/13	56	18	30	104

- 3.6 During the year the Council prioritised resources on investigations where there was greater potential to uncover higher value fraud. This became necessary as the Department for Work and Pensions will now only consider taking on an investigation where the potential joint overpayment of benefit is in excess of £2,000.
- 3.6 This has reduced the number of cautions and penalties for 2012/13 (and is likely to continue in future) although these remain sanctions available to the Council.

4 THE ROLE OF INTERNAL AUDIT

- 4.1 The Council's Internal Audit Team has a crucial role in helping the Council to prevent and detect fraud and corruption. The Team carries out an annual assessment of the areas most at risk of fraudulent activity. Internal Audit carries out reviews of the controls in place to prevent fraud and corruption in these areas on a cyclical basis and, where relevant, makes recommendations for strengthening arrangements.
- 4.2 The number of non-benefits fraud referrals to Internal Audit during the year was again very low, with only 4 significant investigated:
- Fraudulent / forged invoices – 2 schools identified 2 invoices from a company where the authorising signatures had been forged. These are under investigation.
 - Missing cash income and fraudulent payments to employees of a sports complex – Missing cash was identified for charged for sports services and false payments were made to casual sports assistants. This case is currently being

prosecuted.

- Internet and time abuse – This was an investigation into the use of the internet for private use in works time. Disciplinary processes are to commence.
- Fraudulent use of an authority stamp to grant bus pass applications – concerns were received as part of a safeguarding investigation that a Doncaster Council stamp had been used to fraudulently verify / grant free transport to members of the public. Unfortunately there was insufficient information to be able to take this case further as it was difficult to determine which free transport had been granted illegitimately.

4.3 There were, however, 2 formal internal audit reviews initiated at the request of Service Managers after management investigations in their areas had led to significant concerns as to the state of the operational control environment. These were in the area of Adults Services namely the Safeguarding Personal Asset and Housing Adaptations Teams.

4.3.1 In the Safeguarding Personal Assets Team, the service manager identified control weaknesses around the personal assets held for vulnerable adults in care. A full review was completed to ensure that the property and cash of these vulnerable service users was properly managed and safeguarded. A report and detailed improvement plan was created, actions from which are currently being implemented.

4.3.2 In Housing Adaptations, the hearing officer for a disciplinary issue, raised concerns that financial and procurement processes within the Housing Adaptations Team were weak. The team deals with the procurement, monitoring and payment of grants and loans to households requiring home improvements or adaptations. A full review was undertaken and actions are currently being agreed to improve the controls in this area.

4.4 Where frauds have been identified or control weaknesses found, Internal Audit has followed up in these areas to ensure tighter financial controls are introduced to reduce the risk of further problems arising. Where management investigations have taken place, Internal Audit has followed up with a review to ensure that control weaknesses are again identified and addressed.

- 4.5 Internal Audit is required to report to the Council's external auditor and the Audit Commission any cases of fraud exceeding £10,000. There were no general cases above this value reported in 2012/13.

5 NATIONAL FRAUD INITIATIVE

Background

- 5.1 The National Fraud Initiative (NFI), run by the Audit Commission, matches electronic data within and between some 1,300 public and private sector organisations to highlight potentially fraudulent activity. 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 .
- 5.2 Generally, the NFI matches are performed every 2 years. For the 2012/13 year, the process looked at matching council tax single persons' discounts only.
- 5.3 The Council found £ 23,147 from this most recent matching exercise which identified households with minors who reached aged 18 which means single persons' discount no longer applies. This was from 108 cases. A further 100 matches still being checked where occupants of the household have turned 18.

NFI 2013/14

- 5.4 The Council is currently investigating matches arising from the 2013/14 exercise and the Council is, as always, fully supportive of the process.
- 5.5 In addition to the normal data matching exercises, the Council has also submitted data for an additional pilot data matching exercise on personal allowances given to clients arranging their own social care. This new data matching exercise is designed to identify instances such as where clients are no longer entitled to the allowances.

6 REVIEW OF THE ANNUAL FRAUD SUBMISSION (ALL FRAUD AREAS)

- 6.1 Each year, the Audit Commission collates a general survey on fraud encompassing all known fraud types.

6.2 A summary of the results for Doncaster Council for the last two reported years is given below.

	2011/12		2012/13	
	Number	Value (£)	Number	Value (£)
Housing Benefits and Council Tax Related				
Number of Housing Benefit / Council Tax Benefit fraud cases	1137	£781,067	1052	£653,972
Number of prosecutions	46		33	
Number of prosecutions resulting in a guilty outcome	39		32	
Council Tax single persons discount fraud	0	0	Not recorded	Not recorded
Housing Related				
Cases of tenancy subletting ¹	Yes but not recorded	Not quantified	0	0
Other tenancy fraud ²	0	0	1	Not quantified
Payroll / Employee Payments / Recruitment Fraud				
Payroll contract fulfilment fraud ³	Yes but not recorded	Not recorded	5	Not recorded
Employee expenses fraud	Yes but not recorded	Not recorded	1	Not recorded
Abuse of position for personal gain ⁴	2	£17,000	1	Not recorded
Manipulation of financial or other data ⁵	0	Not required	1	Not required
Other Frauds				
Procurement Fraud	Yes but not recorded	Not quantified	3	£246 ⁶
Social services fraud ⁷	Not recorded	Not recorded	Yes but not recorded	Not recorded

¹ These are cases where, after investigation, it was believed that a tenant has let all or part of their council owned property to someone else against the terms of their agreement.

² Examples of other tenancy fraud include fraudulent housing applications, fraudulent succession arrangements (where the property is passed on to another after death or on quitting the property) or dual tenancies where more than one tenancy is in place across the participating authorities.

³ This includes, but is not limited to: the creation of non-existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.

⁴ Put simply this is someone fraudulently taking advantage of their job or position of authority to make a gain for themselves or a related party. This can include abuse of position to employ a family member or to make a financial gain by using information that they gain during the course of their employment for their own ends.

⁵ This includes, but is not limited to: the falsifying of statistics or manipulating accounts or financial information.

⁶ These were small value fraudulent transactions by 3rd parties that were identified on the Council's credit cards

⁷ This is any fraud linked to social services provision including: false payments to contractors for house modifications; personalised budgets for the purchase of care; failing to declare capital and assets; false care provision by in-house or external contractors.

	2011/12		2012/13	
	Number	Value (£)	Number	Value (£)
Economic / 3rd sector support fraud ⁸	1	<£1000	0	0
Disabled parking concessions fraud (blue badge fraud)	27	£13,500	0	0
General Information				
Number of cases of individual fraud over £10,000 (these have to be reported separately to the external auditor)	12		9	

- 6.3 Differences between the number of prosecutions for benefits fraud in section 3 and the above table are due to timing differences as the survey collates prosecution outcomes in the year rather than the number of prosecutions undertaken in the year. This is a timing issue only. The reduced number of prosecutions reflects the change as initiated by the Department of Work and Pensions to only seek to prosecute cases with a value over £2,000 as outlined in paragraph 3.5.
- 6.4 There were 9 cases of fraud over £10,000 that were reported separately to the Audit Commission and external auditors in 2012/13. These were all benefits fraud cases, there being no general cases of fraud exceeding this value.
- 6.5 Unusually for most local authorities, the fraud survey return for Doncaster Council lists the value of council tax single persons discount fraud as being 0 or not recorded. Whilst the Council does review any single persons discount matches produced by the NFI, it classes these as error rather than fraud. This is due to the fact that unless housing and / or council tax benefit has also been claimed (in which case this is reflected in the housing benefit fraud figures), the value of the match is relatively low and is not economical to pursue through the courts or investigate to determine whether it was actually fraudulent or not. Instead, the discount is cancelled and backdated and a recovery made of the discounts applied. This reporting approach has been agreed with the Audit Commission.
- 6.6 Blue Badge Fraud - In 2011/12, an exercise was undertaken by the Parking Enforcement Team to compare any blue badges that had been used to claim a

⁸ This is any fraud that involves the false payment or claims of grants, loans or any financial support to any private individual or company, charity or non-governmental organisation.

parking concession to a database of deceased persons. This resulted in 27 prosecutions. The exercise has not been repeated for 2012/13 although 1 day operations have been carried out to ensure that compliance with the requirements of the blue badge scheme remains high.

- 6.7 General levels of overall fraud recorded by the Council remain low and this is consistent with the number of whistleblows recorded by Legal Services during the year of just 3 cases. (These are cases where a member of staff has blown the whistle on improper or fraudulent practices within the Council. Referrals made by members of the public are not classed as whistleblows and are not reported within this statistic).

7 THE COUNCIL'S ARRANGEMENTS FOR MANAGING THE RISK OF FRAUD & CORRUPTION

- 7.1 The Council has recently updated and simplified its Anti-Fraud Bribery & Corruption Framework (In December 2012) and, within this, created an action plan of practical measures to strengthen our arrangements for the prevention of fraud & corruption.

- 7.2 In 2013/14 we will:

- Continue to investigate of matches generated by the National Fraud Initiative and prepare for the 2014/15 data submission
- Procure and complete a data matching exercise for single persons' discounts on Council Tax.
- Oversee the implementation of the remaining agreed management actions arising from the self-assessments re the Bribery Act, Protecting the Public Purse and Managing the risk of Fraud
- Deliver a series of anti-fraud and corruption reviews in key risk areas of the council as identified though our Fraud and Bribery Risk Registers
- Escalate a programme of fraud risk training via an E-learning training course and fraud risk self-assessment tool for employees/managers.
- Promote the consequences of committing fraud e.g dismissal, prosecution etc via suitable media sources.
- Continue development of the Fraud and Bribery Risk Register

- 7.3 As part of our on-going commitment we will continue to monitor and report upon the

outcomes of our anti-fraud and corruption work.

8 REPORTING YOUR CONCERNS

- 8.1 If you do 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 862940. Other available contacts are the Council's Monitoring Officer, the Director of Finance and Corporate Services or the Chief Executive. Concerns can also be reported to the council's external auditors.
- 8.2 Alternatively you may prefer to put your concerns in writing to the Head of Internal Audit at Internal Audit Services, Floor 4 Colonnades House, Duke Street Doncaster, South Yorkshire, DN1 1ER and mark the envelope "CONFIDENTIAL — TO BE OPENED BY THE ADDRESSEE ONLY". You could also complete the fraud allegation form internally by using the e-form on the Internal Audit pages of the intranet.
- 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:
www.doncaster.gov.uk/sections/advicebenefitsandcounciltax/enforcement/Report_a_Benefit_cheat.aspx