

## **Appendix 1**

### **EAST CAMBRIDGESHIRE DISTRICT COUNCIL – INTERNAL AUDIT**

#### **ANNUAL FRAUD ACTIVITY REPORT**

## **1. INTRODUCTION**

1.1 In common with all other public bodies, East Cambridgeshire District Council is potentially vulnerable to fraud, either internally by its employees, or externally from members of the public. The Council has an ongoing duty to protect the public purse and our approach is set out in our Anti-Fraud & Corruption Strategy.

1.2 The purpose of this report is to provide an overview of general and specific fraud related issues that have arisen during the last year covering the following:-

- Fraud Risk Assessment
- Housing Benefit & Council Tax Discount fraud
- The National Fraud Initiative
- Work relating to the Cambridgeshire Anti-Fraud Hub
- Local Government Transparency Code
- Emerging Issues

## **2. FRAUD RISK ASSESSMENT**

2.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) issued a Code of Practice on Managing the Risk of Fraud and Corruption in December 2014. There are five key principles of the Code including one specifically around the identification and assessment of fraud risks.

2.2 In order to assess the level of risk of exposure to fraud and corruption Internal Audit has undertaken a Fraud Risk Assessment which has concluded that the Council generally has good controls in place and the overall risk of fraud and corruption is low. The review did however make recommendations at a corporate level to improve controls in a number of areas and these will be progressed during the remainder of 2015/16. In addition at an operational level, two specific areas where the risk of fraud was considered to merit further review of controls were identified and reviews will be undertaken as part of the Internal Audit workplan for the financial year 2016/17.

2.3 Further work to assess the Council's compliance against the remaining four key principles contained within the Code is currently in progress.

## **3. HOUSING BENEFIT & COUNCIL TAX DISCOUNT FRAUD**

3.1 The Anglia Revenues Partnership's (ARP) Fraud & Visits Team is responsible for undertaking investigations into allegations of Housing Benefit & Council Tax Reduction fraud. The predominant sources of referrals are from:-

- Housing Benefit and Council Tax Assessment Officers
- Data matching

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- Joint working
- Whistle blowing
- Fraud Hotline referrals

- 3.2 Where appropriate, suspected offenders are dealt with in accordance with the ARP Prosecutions Policy which results in one of three sanctions being applied, a Caution, Administrative Penalty or Prosecution. For sanction definitions see Appendix A.
- 3.3 During the financial year 2014/15 the ARP Fraud & Visits Team received a total of 91 fraud referrals relating to the Council, some of which were resolved after an initial compliance visit. A total of 51 fraud investigations were opened which resulted in 26 sanctions being applied as a result. A breakdown of the different sanctions is shown below and for comparison the outcomes for the financial year 2013/14 are shown.

<b>Sanction</b>	<b>2014/15</b>	<b>2013/14</b>
Formal Caution	12	9
Administrative Penalty	4	8
Prosecution	10	12
	26	29
<b>Total Monetary Value</b>	<b>£122,759</b>	<b>£201,925</b>

- 3.4 Appendix B provides some background information on two of the larger value prosecution cases.
- 3.5 The Governments strategy for tackling welfare fraud and error published in October 2010, set out a commitment to create a Single Fraud Investigation Service (SFIS) to investigate benefit and tax credit fraud within the Department for Works and Pensions (DWP).
- 3.6 The commitment will be achieved by bringing together investigation staff from local authorities, the DWP and Her Majesty's Revenues and Customs. For the ARP partners, the investigation of welfare benefit related fraud transferred across to the centralised SFIS from 1<sup>st</sup> September 2015. This resulted in the transfer of some ARP fraud resource over to the DWP, leaving a reduced resource within ARP to undertake fraud prevention and detection work in areas that will remain the responsibility of local authorities, including Council Tax Discount fraud.

#### **4. THE NATIONAL FRAUD INITIATIVE**

- 4.1 The National Fraud Initiative (NFI) is a sophisticated data matching exercise that matches electronic data within and between public sector bodies to prevent and detect fraud. The exercise is undertaken every two years and historically has been successful in identifying fraud and error across the UK. The last completed exercise (NFI 2012) processed nearly 8,000 datasets from 1,300 organisations which produced 4.7 million data matches. Reported outcomes from the investigations of matches was £229 million. The Principal Auditor is the Council's Key Contact for NFI.

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- 4.2 The latest exercise (NFI 2014) was launched in early 2014 and the Council complied with the requirement to submit a number of datasets to the then Audit Commission by the prescribed dates, with the first matches being released for investigation in January 2015, with further releases occurring during the year.
- 4.3 A total of 1,187 potential matches have been reported to the Council for review and possible investigation, 256 of which met the NFI recommended filter criteria (ie highest fraud indicator).
- 4.4 Individual data match reports, of which the council received 56, cover a number of areas including creditors, payroll, housing, benefits, council tax reduction, pensions, student loans, local authority licenses and insurance. In addition two specific specialist areas, Home Office Immigration and Operation Amberhill are also covered.
- 4.5 To date 404 matches including a high proportion of the NFI recommended matches have been reviewed and completed (some of the recommended matches have only recently been released). Four matches are in the process of being investigated and four of the completed matches have resulted in the identification of errors totalling £11,089.95 all of which is being recovered.

### **5. THE CAMBRIDGESHIRE ANTI-FRAUD HUB**

- 5.1 It is estimated that nationally there is £21bn of fraud annually against the public sector of which £2.1bn is against local authorities. The Department for Communities and Local Government (DCLG) has provided £16m to help support 60 local authorities to expand and develop counter fraud activities.
- 5.2 The Cambridgeshire district authorities were successful in their bid to the DCLG and were awarded £335,100 (the 13<sup>th</sup> largest award) to identify additional local fraud as well as new cross boundary fraud, and across a wide range of fraud types to the value of £2.1m each year for the next five years.
- 5.3 A key element to the project is the creation of a Central Intelligence Centre to fully assess fraud leads, run a range of initial checks and enquiries, before passing cases for investigation to the relevant local authority. This is supported by a central database of local authority and other data to help find inconsistencies that could indicate fraud. This is further supported by a range of prevention and awareness activities including more sophisticated identity checking tools, hotlines and publicity. A structural overview of the delivered solution is provided for information at Appendix C.
- 5.4 The project will enable Cambridgeshire authorities to come together to pilot a stronger and more co-ordinated approach to finding and fighting fraud. As well as working more closely together with a central intelligence and data sharing facility that will help identify more local and cross boundary fraud, individual authorities will be working more closely with their local social housing providers to help tackle tenancy fraud under the Prevention of Social Housing Fraud Act 2013, which gives local authorities the powers to investigate and prosecute tenancy fraud on behalf of housing providers.
- 5.5 The project has an implementation date of 31<sup>st</sup> March 2016 at which point the DCLG funding ceases. Each authority has its own specific Project Implementation Plan and progress is being made against our own Plan. The success of the whole project

is however dependent on all authorities fulfilling their individual obligations contained within their own Plan. Progress is monitored through a Project Board of which the Principal Auditor is a member.

## **6 LOCAL GOVERNMENT TRANSPARENCY CODE**

6.1 In 2014 the Local Government Transparency Code was extended to include the requirement for councils to publish certain information on counter fraud work on an annual basis:-

- The number of occasions powers were used under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.
- The total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud.
- The total number (absolute and full time equivalent) of professionally accredited counter fraud specialists.
- The total spent on the investigation and prosecution of fraud.
- The total number of fraud cases investigated.

6.2 Initial information covering the calendar year 2014 was published on the council website to meet the target date of 2<sup>nd</sup> February 2015 and this was replaced with information covering the financial year 2014/15 and going forward this will be updated annually at the end of each financial year.

## **7 EMERGING ISSUES**

### No Recourse to Public Funds Fraud

7.1 No Recourse to Public Funds (NRPF) fraud has been highlighted as an emerging fraud risk. This fraud involves persons from abroad who are subject to certain immigration controls which prevent them from gaining access to specific welfare benefits or public housing. However, families who have NRPF may still be able to seek assistance from their local authority whilst they are waiting for or appealing a Home Office decision on their status.

7.2 Fraud has been committed for example, by fraudulently claiming family status with children who, on further investigation, may not be their own. NRPF is a locally administered scheme, thus creating the potential for multiple claims to be made at different councils using the same alleged 'family'. This type of fraud can be prevented by ensuring that both identity document scans and credit checks are undertaken when applications for assistance are received. Part of the DCLG funding is being used to provide identity checking capability within the council.

### Economic and Third Sector Fraud

7.3 Economic and third sector fraud involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non-governmental organisation including, but not limited to grants paid to landlords for property regeneration, donations to local sports clubs and loans or grants made to a charity. As an emerging risk area this will be reviewed as part of the Internal Audit workplan for the financial year 2016/17.

**8 CONCLUSION**

- 8.1 Our own Anti-Fraud and Corruption Strategy states that the Council must demonstrate that it is firmly committed to dealing with fraud and corruption and will deal equally with perpetrators both from inside and outside the Council.
- 8.2 The Protecting the English Public Purse 2015 report written and published by The European Institute for Combatting Corruption and Fraud (TEICCAF) highlights that two thirds of councils who responded to a survey stated that the single most important factor in relation to tackling fraud is capacity (sufficient counter fraud resource). Capacity was also the main issue in the 2014 report, and it is likely that the transfer of counter fraud staff to SFIS is driving this continuing concern.
- 8.3 The TEICCAF report does state however that SFIS also provides an opportunity for Councils to focus resources away from housing benefit fraud and towards all the non-benefit (corporate) fraud risks they face as these types of fraud have a direct financial impact on the local taxpayers. The creation of the Cambridgeshire Anti-Fraud Hub is seen as the means to utilising scarce fraud resource to the maximum effect.

Trevor Bowd  
Principal Auditor  
November 2015

**Appendix A**

**Sanction Definitions**

<b>Term</b>	<b>Definition</b>
Sanction	Formal outcome of a successful investigation resulting in one of the conclusions set out below.
Caution	A warning, given in certain circumstances, as an alternative to prosecution, to a person who has committed an offence (NOT a Police caution). The caution is recorded on the records of both the local authority and the DWP for five years. A check would be conducted in the event of a similar investigation. A second Caution would not be offered and it would be more likely that a prosecution would be instigated for a second benefit fraud offence where there was a previous Caution recorded within the last five years.
Administrative Penalty	An Administrative Penalty (Ad-Pen) is a financial penalty which can be offered as an alternative to prosecution where there has been no previous sanction of any form, for example, Caution, Ad-Pen or prosecution. The Ad-Pen is administered on behalf of the Secretary of State and is set at 30% of the total of overpaid benefit in the case. The Ad-Pen is recorded on the records of both the local authority and DWP for 5 years. A check would be conducted in the event of a similar investigation. A second Ad-Pen would not be offered and it would be more likely that a prosecution would be instigated for a second benefit fraud offence where there was a previous Caution or Ad-Pen recorded within the last five years.
Prosecution	Prosecution of an offender within the Criminal Justice System for an alleged offence.

## **Appendix B - Successful East Cambridgeshire District Council Prosecutions**

**Case 1** - This case concerns false statements made by Mr M on three occasions on his applications for Housing Benefit where he failed to declare that he was related to his landlord who was also resident in the same property. Under Housing Benefit regulations a claimant is not entitled to Housing Benefit if their landlord is a 'close relative' and the landlord also resides in the same dwelling.

The Council received a first claim for Housing Benefit from Mr M in June 2008 and Benefit was paid on the basis that the claimant was in receipt of Jobseekers Allowance and rented furnished rooms for which he paid rent of £125 per week. Mr M stated that his landlords were not related to him and he provided a rent proof form showing that he had a rent liability and Housing Benefit was paid directly to him into a nominated bank account. Housing Benefit remained in payment until September 2014 and during this period Mr M twice failed to declare that he was related to the landlord.

In October 2014 a telephone query was made in relation to the address details received for Mr M and during the conversation the landlord confirmed that she was actually his sister. Mr M was interviewed under caution and during the interview he admitted that he had failed to declare on three occasions that he was related to his landlord who also lived at the same property. He further admitted that he had also not honestly answered questions when completing applications for Discretionary Housing Payments in that he stated that he couldn't live with relatives or friends.

As a result of the investigation the Housing Benefit claim was cancelled and an overpayment of £25,934.29 was identified. At Cambridge Magistrates Court Mr M was sentenced to 19 weeks imprisonment which was suspended for 12 months with £575 costs being awarded.

**Case 2** - This case came to light as a result of a data match between HMRC's Real Time Information data and DWP records. In August 2010 Mr D made a claim for Housing and Council Tax Benefit on the basis that the only income into the household was Mr D's part time earnings. Mr D subsequently began claiming Jobseekers Allowance as he was unemployed and his Housing and Council Tax Benefits increased.

Benefit entitlement letters were sent out on six occasions between October 2010 and March 2013 to Mr D's home address confirming that Mr D was still in receipt of Housing and Council Tax Benefits and reminded Mr D that he must notify the Council immediately of any changes in his circumstances. In October 2014 the data match showed that Mr D was actually in employment and enquiries made with his employer confirmed that Mr D has worked there since November 2010.

Mr D was interviewed under caution where he confirmed that the information supplied by his employer was correct. Mr D accepted that he should have taken steps to ensure his benefit claim was correct but in mitigation said that it was the first time he had lived alone and dealt with his own affairs.

As a result of the investigation the Housing and Council Tax Benefit was reassessed resulting in an overpayment of Housing Benefit of £14,889.47 and Council Tax Benefit of £2,842.92. At Cambridge Magistrates Court Mr D was sentenced to 120 hours of unpaid work, a twelve month Supervision Order with £400 costs being awarded.

Appendix C - Cambridgeshire Fraud Hub – Delivered Solution Structural Overview

