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ROCHDALE
BOROUGH COUNCIL

Internal Audit Annual Fraud Report 2019/20

Executive Summary

1.1 This report provides a summary for those charged with responsibility for governance on the outcome of proactive and reactive anti-fraud and investigation work during 2019/20, with the main focus being work delivered by Internal Audit, which also includes the Council's Counter Fraud Team. It also outlines some of the areas of emerging fraud risk and the Council's strategic and operational arrangements for managing these risks.

1.2 The key issues arising and outcomes achieved during the year were:
   a) 671 fraud referrals received by the Counter Fraud Team during 2019/20;
   b) £220,467 in financial benefits achieved through savings and increased income for the Council;
   c) 82% of fraud referrals have resulted in positive outcomes i.e. any case with a positive result e.g. a successful prosecution or sanction, an overpayment, a bill or retrieving a blue badge being used fraudulently;
   d) 1 successful prosecution;
   e) 2 formal cautions administered;
   f) 3 financial penalties administered amounting to £1,651;
   g) 5 Administrative Penalties administered amounting to £7,165;
   h) good working relations with GMP and other partner organisations further embedded as part of ongoing work with the Partnership Enforcement Team, including direct involvement in several days of action;
   i) 2 whistleblowing referrals logged and dealt with;
   j) provision of positive assurance to management on systems of control that were subject to proactive anti-fraud work e.g. payroll and creditor payments; and
   k) positive assurance that the key requirements of the national Fighting Fraud Locally initiative are being complied with by the Council.

Recommendation

2.   Report for information.

Reason for Recommendation

3.   Like any organisation of significant size and complexity, Rochdale Borough Council (the Council) is inherently vulnerable to risks of fraud and corruption. In response to these risks the Council has a range of mitigating controls that are used to both prevent and detect fraud and other similar malpractice that may exist within the Council. This report is therefore to inform the Audit and Governance Committee of the various actions and measures that have been taken during 2019/20 to mitigate the risks of fraud.

Key Points for Consideration

4.1   The Council needs to ensure that public money is safeguarded and not lost due to fraud. At a time when local government finances continue to be severely cut back, it is important that resources are directed to those who genuinely need it. Money lost to fraud is money that could be used instead to meet the important needs of genuine people and organisations in our Borough.

4.2   Apart from the need to ensure public money is protected, there are also a number of issues and safeguards which have been put in place to direct the anti-fraud work, with some of the more prominent of these now being considered below.

4.3   *Annual Fraud and Corruption Survey*
       At the time of writing this report the annual CIPFA Fraud and Corruption Tracker survey had not yet been initiated by the organising body. As such, information in this regard will be reported to Committee in due course. Responses to the last Survey were co-ordinated and submitted by Internal Audit in July 2019.

       The outcomes from this survey continue to inform future guidance and best practice in relation to fraud identification, prevention and detection.

4.4   *CIPFA Managing the Risk of Fraud*

       The CIPFA Code of Practice on Managing the Risk of Fraud is one of a number of useful publications that describe what action is needed for an organisation to be effective in countering fraud and corruption. The five key principles of this particular 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.

Internal Audit has taken the lead role in understanding and using this good practice in a practical way here at the Council by having completed the self-assessment checklists provided, and ensuring that the principles within it are used as a benchmark for good practice in relation to any counter fraud initiatives.

4.5 *Fighting Fraud and Corruption Locally*

Fighting Fraud and Corruption Locally (FFCL) is a strategy that was first published in April 2012 as part of a wider national collaboration on counter fraud. The latest FFCL was published earlier in 2020, with reference in the strategy stating that it is *"a strategy for the 2020's".* As such, it continues to provide a wealth of good practice, by which the Council's approach to counter fraud initiatives going forward continues to be influenced.

Please see Appendix 1 for a completed self-assessment checklist which shows the position at the Council against a list of good practice from the FFCL checklist.

Please note that later in 2020 the Council's FFCL checklist itself will be updated in line with that contained in the latest FFCL 2020 Strategy, with compliance to this also being reconsidered and updated accordingly.

4.6 In the current economic climate there is a perceived increased risk of fraud due to a reduction in resources. This certainly remains true in local government, where budgetary pressures, large spending cuts and difficult decisions over priorities may well weaken controls and increase the likelihood of fraud.

4.7 To safeguard public money and ensure that funds are used for their intended purpose, the Council has a zero tolerance approach to fraud, supported by a strong policy statement and commitment to tackling fraud and corruption. This is backed up by various policies, procedures and codes linked to the Anti-Fraud and Corruption Policy. This helps to ensure that staff, the public and various stakeholders can have confidence that the affairs of the Council are conducted in accordance with the highest standards of probity and accountability and that Members and officers demonstrate the highest standards of honesty and integrity.

Structure and Roles

4.8 Working in conjunction with the Monitoring Officer, Chief Finance Officer and other officers throughout the Council as appropriate, Internal Audit plays a part in ensuring that the Council has appropriate arrangements to deter, detect and investigate fraud. This role includes the following:

4.9 a) Driving the continual development of a framework of anti-fraud policies and procedures;
b) Raising awareness of fraud risks and developing mechanisms to maximise the opportunities for fraud risk reporting;
c) Being involved in a joined-up response to whistleblowing allegations, referrals and other concerns including those received under the Council's Anti-Money Laundering Policy;
d) Investigation of concerns/ allegations of financial or other irregularity;
e) Liaising with Greater Manchester Police to support criminal prosecutions;
f) Delivering a programme of proactive anti-fraud reviews;
g) Liaising with Council officers and/or schools in the Borough directly on various issues associated with minimising the risk of fraud;
h) Providing advice and support to managers across the Council in their own investigation of irregularities;
i) Providing advice and recommendations to managers on appropriate controls to help prevent and detect fraud and corruption; and
j) Monitoring anti-fraud activity across the Council.

4.10 In 2019/20 Internal Audit spent a total of 138 days on anti-fraud work. This consisted of 98 days reactive and 40 proactive (including the NFI).

4.11 The Council's approach to dealing with fraud extends beyond the Monitoring Officer and Internal Audit to all Council Services where appropriate, including schools.

4.12 The Council's Counter Fraud Team, which forms part of the Internal Audit team, is a team that was established in March 2015 following the migration of housing benefit investigations to the DWP. This was as a result of the creation of a single fraud investigation service (SFIS) within the DWP to investigate benefit fraud. It was therefore agreed that a local counter fraud function be retained within the Council in order to investigate non-benefit fraud, e.g. local council tax support, council tax discounts, business rate reliefs and exemptions, blue badges, Adult Care 'personal budgets' etc. following the localism agenda; the need to minimise fraud and maximise income for the Council was key to this decision.

4.13 In addition to the above, the Counter Fraud Team is also a key member of the Partnership Enforcement Team (PET), which is co-located with the GMP and other Council enforcement staff such as Public Protection, Private Sector Housing Enforcement, Community Safety, RBH enforcement and more recently DWP Fraud officers. The focus of the PET is in tackling fraud and crime across the Borough.

4.14 In general terms, there is a continuing drive to ensure that Service management are generally more aware of their fraud risks, and that they take ownership to ensure that adequate controls are in place to minimise against these risks.

Counter Fraud Team

4.15   A summary of the work completed by the Counter Fraud Team in 2019/20 is set out below.

Performance

4.16   A total of 671 fraud referrals were received during 2019/20 (compared against 681 in 2018/19). Referrals are continuously reviewed and work takes place where appropriate to generate more referrals including fraud awareness training.

Typical sources of these referrals are from the National Fraud Initiative (NFI), the Partnership Enforcement Team, anonymous information and RBC employees. A significant number of these do not progress to formal investigation by the team as they are either passed to the DWP or closed due to apparent malicious intent or the fact that there is not enough information to progress the matter.

4.17   In total for 2019/20 the team achieved savings of £220,467. This figure derives from successful investigations into transactions associated with a number of Service areas typically including Benefits, Council Tax, Business Rates, Blue Badge and Adult Care, as well as additional income from fraud financial penalties, administrative penalties and court costs.

4.18   As referred to at 1.2 above, 82% of referrals resulted in positive outcomes.

National Fraud Initiative

4.19   The Counter Fraud Team is one of several sections within the Council that have an important role to play in checking data matches that are received from the NFI.

The Team have being checking the data received in the 2018/19 NFI Single Person Discount, Council Tax matches. To date over 500 matches have been checked and over £28,000 has been generated from cancelled single person discounts. Checks are now being completed from the 2019/20 NFI Single Person Discount.

The NFI Housing Benefit and Council Tax Support work from 2018/2019 is ongoing. We have checked and closed 37 reports to date. We currently have 19 open investigations. To date, the Counter Fraud Team have found over £20,000 in overpayments from these NFI matches and these are being recovered. Ten of the live cases are from data matched against HMRC records.

4.20   The Counter Fraud Team not only investigates cases of fraud, but also provides a wealth of advice across the Council to services and to external bodies including immigration and the police. Replies were made to 520 Data Protection Requests in 2019/20, not including the work that is completed in the PET which totalled another 376 requests actioned.

4.21   Referrals from different teams are brought to the PET weekly meeting each Monday to discuss and work on together. A combination of intelligence, skills and powers from the different enforcement agencies are used to prevent and detect fraud within the Borough. Currently the following cross-agency teams attend the weekly meeting: GMP – Organised Crime Team; Divisional Tasking Team, Rochdale BC – Children's Services; Community Cohesion & Equality; Community Safety; Fraud; Public Protection; Strategic Housing, DWP – Fraud, RBH – Enforcement, Fire Service officials.

4.22   Further information relating to the PET being as follows:

- 8 cases currently under investigation;
- 24 PET fraud referrals were closed throughout the year;
- 1 successful prosecution – closed fraud proven;
- 5 were passed to DWP;
- 10 were closed with overpayments and savings or positive outcomes; and
- 8 were closed with no fraud found or did not need to be investigated.

4.23   The experienced investigators have participated in days of action and proactive visits throughout the year, which has resulted in savings being generated in respect of Council Tax, Business Rates, Housing Benefit and Council Tax Support.

Reactive Fraud Cases

4.24   A number of allegations of fraud were referred to Internal Audit during the year which were subject to initial investigation. Of these, one involved Internal Audit spending time further investigating various related issues that resulted in internal disciplinary measures and/or referral to the police. Where appropriate, significant outcomes and lessons learned from all such work are shared with the Audit and Governance Committee through the Internal Audit quarterly reporting on an ongoing basis but only at the point a final conclusion is reached.

Proactive Anti-fraud work

4.25   Some of the key areas of focus during the year included the following;

4.26 The Council fully participates in the biennial National Fraud Initiative (NFI) data matching exercise that is run by the Cabinet Office. The NFI is a proactive anti-fraud initiative which matches electronic data within and between public and private sector bodies in order to highlight possible instances of fraud and error. Data from various Council systems is provided by participants to the Cabinet Office, and IT data matching facilities are then used to analyse, compare and ultimately to match this data in accordance with set criteria for doing so. The matched data is then returned to us in the form of a series of reports that are then checked by appropriate staff to determine whether fraud is suspected, or whether the data is present on the report due to error, or indeed due to genuine reasons.

4.27 The current NFI exercise (2018/19) is now drawing to a close but the 2020/21 exercise is due to start in October 2020 when data is provided to Cabinet Office, with the resulting data matching reports being available at the end of January 2021.

Progress with the NFI is monitored closely by the Council's NFI Key Contact and reported to the Chief Finance Officer and the Finance Portfolio Holder if significant outcomes need to be brought to their attention.

Typical monetary related outcomes from recent NFI exercises are that funds are recovered in respect of the following areas:

- from duplicate payments to suppliers;
- from people claiming Housing Benefit inappropriately;
- from overpayments of pension to deceased people; and
- from overpayment of residential care fees to deceased people.

Actual outcomes from the most recent NFI to date include:

- 4 data matches closed as frauds;
- £38,859 identified for recovery, mainly within Housing Benefit and Council Tax Reduction; and
- 38 errors but with no financial value due to the nature of the errors, such as issues with blue badges as noted below.

Please note that the above excludes NFI for CTAX SPD which is referred to separately below.

4.28 Non-monetary outcomes from the NFI are also important too, such as information leading to the cancellation of several blue badge parking permits as a result of badge holder's now being deceased, thus minimising the risk of family/friends using the badge instead. It is noted that these are not due to fraudulent activity, merely the fact that official records show the badge holder is deceased yet the Council had not been informed. However, cancelling badges in this way ensures that the badge

cannot be renewed when it expires, thus proactively nullifying the risk of someone fraudulently reapplying and having the badge renewed in the name of the deceased person.

Internal Data Matching

4.29   Internal Audit also makes use of various standard IT facilities and specialised audit software (ACL) in order to analyse and match data from key corporate systems to establish patterns and discrepancies which may be an indicator of fraud. This work is useful as it supplements the biennial NFI exercise with data analysis that is current and absolutely meaningful at the time of processing, thereby meaning that the opportunity to prevent and detect fraud is reduced still further.

4.30   Examples of this include:

- Work is always undertaken to analyse and further refine data received from the Cabinet Office relating to Council Tax Single Person Discount fraud. This allows for limited staffing resource to be targeted at checking data matches of greater quality.

- A data match, that in a previous NFI exercise highlighted a £70k fraud at the Council, is recreated bi-annually to check the authenticity of instances where members of staff and companies trading with the Council have the same bank account details. The small number of data matches that were identified as being in this category were found to exist for genuine reasons e.g. Council employee is wife/ husband/ partner of someone that owns a company that trades with the Council and they have a shared bank account into which both salary and payments for goods/services are paid.

- A test is performed to ensure that staff working for the Council are not being paid via the payroll system and also by payment of invoices for the same work. An example of where this could potentially occur is with consultants and temporary agency/contract workers. No such cases have been identified to date.

General Anti-fraud Training

4.31   Further to the general anti-fraud e-learning training that is undertaken by all staff in the Council, the Counter Fraud Team also ensures that the skills of its own staff are kept up to date where necessary - an example of this in 2019/20 being attendance at a Social Media Investigation course.

In 2019/20, the Counter Fraud Team also liaised with a Rochdale-based professional services company to devise bespoke training material and to subsequently deliver this to some teams within the Adult Care Service.

4.32 The Council's Whistleblowing Policy aligns with published best practice (British Standard PAS 1998:2008) and is designed to make it as easy as possible for someone to report a concern. Concerns are reported under this policy, with Internal Audit keeping metrics in this regard in order to be able to measure the ongoing effectiveness of this policy. The existence and use of this policy continues to be promoted to all staff via online media such as the Intranet.

2 such referrals were reported and dealt with in 2019/20.

Anti-Money Laundering Policy

4.33 A policy is in place and global communications are issued periodically to increase staff awareness of this area of risk.

Council Tax Single Person Discount (SPD)

4.34 Resources continue to be carefully allocated and used in order to ensure that proportionate efforts are invested in minimising this particular risk of fraud. Both the NFI data matching reports and selective services offered from external companies such as credit checking companies are used whenever required to assist the Council in ensuring that SPD fraud is minimised.

NFI data matches for CTAX SPD are received in December each year from the Cabinet Office containing details of addresses in the Borough with a SPD but where the Electoral Register indicates that there is more than one person living at that address.

Actual outcomes to date from the latest NFI SPD exercise are that over 500 matches have been checked and over £28,000 has been generated from cancelled single person discounts. Checks are now being completed from the 2019/20 NFI Single Person Discount data matches.

Anti-Fraud and Corruption Policy (AFACP)

4.35 The AFACP itself is reviewed on an annual basis and re-published on the Intranet and Council website accordingly.

Key priorities for 2020/21

4.36 Time and resource is normally allocated in the Annual Internal Audit Plan for the prevention and detection of fraud across the following areas:

- **Proactive Work** - Internal Audit will engage in work aimed at minimising the risk of fraud before it occurs by engaging in a range of activities. The Counter Fraud Team will continue to develop its remit and focus for identifying fraud in a range of areas and to ensure that any proven frauds lead to prosecution and recovery of

any financial loss;

- **Reactive Work** - Internal Audit is ready and equipped to provide a service to management by leading and / or assisting with cases of suspected fraud that may arise. There is no doubt that the impact of the Covid-19 virus in 2020 and the financial implications this has had on local authorities in terms of the necessary changes in working practices and additional demands placed upon staff, additional fraud risks have emerged which are being closely monitored by the Counter Fraud Team in particular. It is likely that this will remain a specific priority for much of 2020;

- **Raising awareness** - Internal Audit will continue to lead and / or support Council services to improve levels of awareness of fraud risks amongst managers, staff and partners;

- **Communication** - Internal Audit will seek to improve the effective communication of Council policy, procedures and codes relating to anti-fraud;

- **Fraud risk assessment** - Internal Audit will build upon work already performed in this area and ensure that fraud risks remain current and receive the attention of management in proportion to the risk faced;

- **External liaison** - Internal Audit will further build upon links established with the police and the National Anti-Fraud Network (NAFN) to ensure that future fraud investigations proceed as smoothly as possible;

- **Co-ordination** - Internal Audit will continue to work with colleagues, especially those in the HR Service and the Counter Fraud Team, to share expertise and maximise the efficiency and effectiveness of anti-fraud activity across the Council;

- **Fraud monitoring** - Internal Audit will continue to maintain intelligence and oversight of fraud cases and outcomes in order to support decision making for management;

- **Collaborative Working** - Internal Audit will continue to fully participate in the AGMA Fraud Group and to ensure that learning points and other good practice is considered and implemented at Rochdale Council where appropriate; the Counter Fraud Team is also a key member of the Partnership Enforcement Team which continues to have a very positive impact on tackling crime and fraud across the Borough; and

- **New Initiatives** - Internal Audit will ensure that relevant new initiatives in the anti-fraud field are duly considered and good practice implemented within Rochdale Council where necessary.

Costs and Budget Summary

5.   Not applicable.

Risk and Policy Implications

6.   Within this report consideration is given to the risks associated with fraud faced by the Authority and the processes and controls through which these risks are mitigated in order to ensure that the Anti-Fraud and Corruption Policy is both embedded and complied with.

Consultation

7.   Not applicable.

Background Papers	Place of Inspection
8. None.	

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