



AUDIT AND GOVERNANCE COMMITTEE

Monday, 29 June 2020

CORPORATE FRAUD ANNUAL REPORT 2019-20

EXECUTIVE SUMMARY

1. This report provides a summary of the performance of the Corporate Fraud Service for the period 1 April 2019 to 31 March 2020.
2. This report is presented to the Audit and Governance Committee in compliance with its terms of reference to 'Review the assessment of fraud risks and potential harm to the Council from fraud and corruption. Monitor the counter-fraud strategy, activity and resources.'

Is the report Open or Exempt?	Open
Wards Affected:	All
Cabinet Member:	Councillor Richard Kerry - Cabinet Member with responsibility for Housing Councillor Maurice Cook - Cabinet Member with responsibility for Resources
Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit Telephone Number – 01394 444254 Email address – siobhan.martin@eastsoffolk.gov.uk

1 INTRODUCTION

- 1.1 This report provides a summary of the performance of the Corporate Fraud Service for the period 1 April 2019 to 31 March 2020.

2 BACKGROUND

- 2.1 East Suffolk Council has a dedicated Corporate Fraud Service. The Council has an overall zero-tolerance approach to fraud and corruption. The Team had a comprehensive programme of proactive/reactive anti-fraud work which has been undertaken in 2019/20. In May 2015, Housing Benefit fraud investigations transferred to SFIS (DWP).
- 2.2 The Corporate Fraud Team will investigate any aspects of the fraud activity relating to the Council, partnerships, and their services, whilst considering the risk of loss to the Council, loss of the services to its residents and reputational damage this may cause.
- 2.3 Local Authorities' powers increased in 2013, with the introduction of the Local Council Tax Reduction Scheme (LCTRS) Regulations (replacing Council Tax Benefit). They are no longer classed as a DWP benefit. Also, currently most Single Person Discount (SPD) and Local Council Tax Reduction (LCTR) checks are undertaken by the Anglia Revenues Partnership (ARP). This includes the LCTR and Housing Benefit NFI results (National Fraud Initiative Exercise) allocated to them. All other NFI matches are investigated by the East Suffolk Council Corporate Fraud Service.
- 2.4 A continued focus during 2019/20 has been maintaining working relationships and closer liaison across specific service areas to widen the scope of fraud awareness. This included specific external training to identify how fraud could permeate into their areas of work.

3 RESOURCES

- 3.1 The Corporate Fraud Service consists of a Manager, two Investigation Officers (full time) and an Intelligence Officer (part-time) directed by the Head of Internal Audit. The Head of Service is a Senior Appropriate Officer, accredited by the National Crime Agency (NCA) and one Investigations Officer is an Accredited Financial Investigator. This provides the Council with an opportunity to recoup financial losses because of fraudulent activity and another specific area of work.
- 3.2 The Internal Audit and Corporate Fraud Services have a contract with Ipswich Borough Council. This provides additional resources if required, as well as the services of two further Accredited Financial Investigators and one Financial Intelligence Officer.
- 3.3 Each year the Corporate Fraud Service expects to recover at least two times the cost of the Service from preventing fraudulent cases or identifying fraudulent payments for recovery. The Service cost £304k in 2019/20. The value of anti-fraud work is a combination of qualitative value, i.e. the value placed upon deterrent activity, plus financial values of the opportunity costs saved, and this equated to £4.69m.

4 PERFORMANCE / OUTTURN

- 4.1 The Head of Internal Audit directs and monitors the overall performance of the Corporate Fraud Service. Day to day management of the Service resides with the Corporate Fraud Manager. This report represents the performance/outputs of the Corporate Fraud Service during 2019/20. It is acknowledged that East Suffolk Council has retained its social housing stock, and as in previous years a significant amount of the year's work has taken place in this area under the Prevention of Social Housing Fraud Act 2013 and the Right to Buy (RTB) regulations. These specific cases usually have an element of other irregularities too –

Council Tax Single Person Discount (SPD), Local Council Tax Reduction), (LCTR), Right to Buy (RTB) fraud prevention, which are dealt with by the Corporate Fraud Service.

4.2 The Corporate Fraud Service investigates a variety of suspected frauds which the Council is vulnerable to, including:

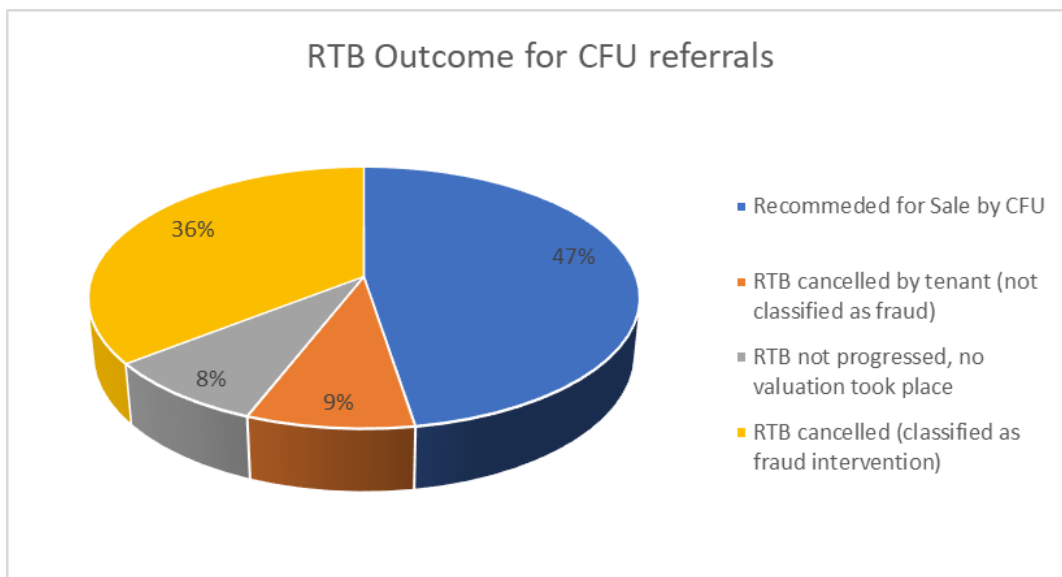
- Right to Buy
- Social Housing Tenancy Fraud
- Gateway to Home Choice applications
- Council Tax Reduction Scheme (proactive – most referred to ARP)
- Single Person Discount / Empty Properties (proactive- most referred to ARP)
- Grants
- Business Rates
- Checking false identity documents (Internal & external)
- Blue Badges
- National Fraud Initiative (NFI Government led exercises)
- Internal investigation cases (disciplinary etc)

4.3 Right to Buy (RTB)

4.3.1 A continuing vital area of work undertaken this last year has been operating a robust “due diligence” reference check on all “Right to Buy” (RTB) application forms submitted to the Council. Under the Proceeds of Crime Act 2002 and the Money Laundering & Anti - Terrorist Financing and Transfer of Funds Regulations Act 2017, there needs to be identity and financial checks undertaken to ensure that social housing is not being purchased (under the RTB legislation) whilst using criminal assets.

The Investigators interview the tenants in respect of their application form and make relevant enquires to establish the facts, before making a recommendation. If they are not satisfied, they will ask for further documentary evidence to verify before recommendation. The Team continues to see an increasing trend of tenants intending to use third party funds to purchase where the funds are provided as a “gift”. These need to be investigated further to ascertain the identity of the third party and origin of the funds. They are also required to attend the RTB interview. Following these enquires some RTB applications have led to tenancy fraud issues. To qualify for an RTB the tenant must be using the property as their main and principal home to live in.

Figure 1 below provides details of all 59 RTB referrals made to the Corporate Fraud Service in 2019/20 and identifying results.



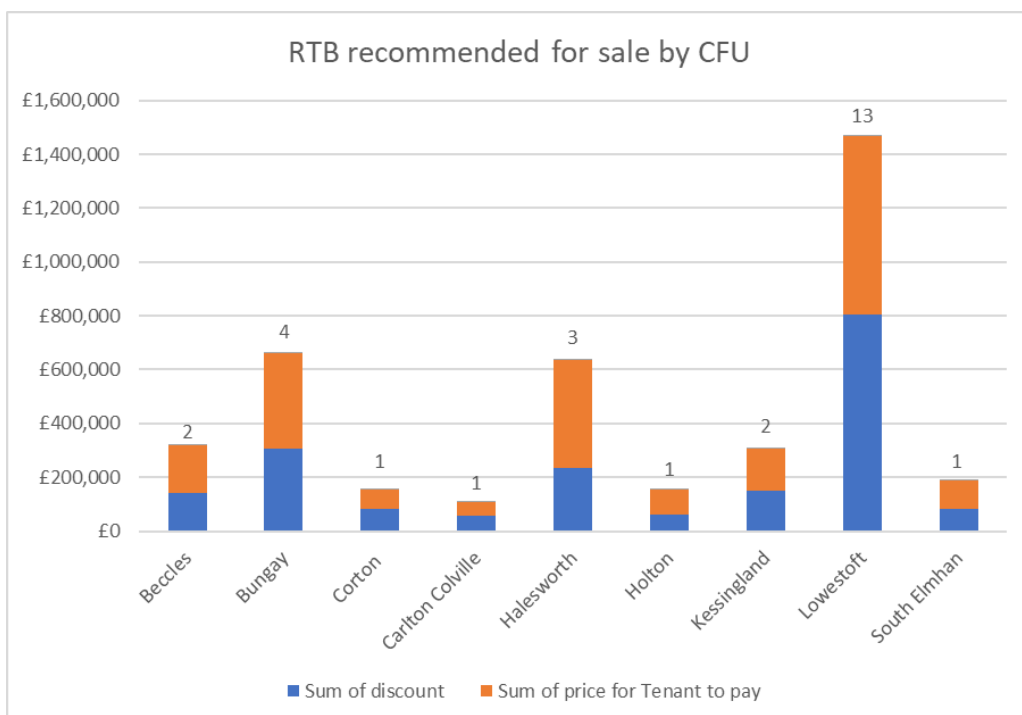
4.3.2 As shown above, out of the 59 RTB referrals, 31 RTB applications during 2019/20 did not progress following referral to the Corporate Fraud Service for due diligence checks. Of these 31 RTB these have been classified into three areas: (1) those cancelled as a direct result of fraud intervention, (2) those cancelled by the tenant for varying unknown reasons unknown (3) those RTB that didn't progress – no valuation took place.

- (1) 21 RTB applications have been classified as cancelled following fraud intervention. As a result, these properties, with a market value of £4,312,500 remain part of the Council's tenancy portfolio.
- (2) 5 RTB applications have been cancelled, reasons unknown without fraud intervention. These properties had been valued with a market value of £725,000, with discount value of £361,400 and if progressed could have resulted in sale income of approximately £363,600 to the Council.
- (3) 5 RTB applications were cancelled as they did not progress to a valuation.
- (4) 28 RTB applications were recommended for sale.

4.3.3 During the year 2019/20 the Corporate Fraud Service recommended that following satisfactory interviews, financial and residency checks RTB sales could proceed for 28 properties. The combined market value of these 28 properties was £3,999,000. Following the application of relevant discounts totalling £1,924,290, income due to the Council from these agreed sales was £2,074,710. Checks are undertaken regarding any outstanding Council Tax debts whilst the applicant is encouraged to satisfy this debt prior to purchasing the property. An outstanding Council Tax debt of £5,689.52 (including costs) was paid because of these additional checks and the RTB due diligence checks.

Council Tax Debt	No	Value
Recovery and costs	1 case	£5,689.52
	Total	£5,689.52

4.3.4 Figure 2 below shows the impact of the 28 RTB applications where the Corporate Fraud Service recommended the sale could proceed, breaking down the agreed price and discount applied per geographical area



4.3.5 Due to the continued success and joint working relationship between the Corporate Fraud Service and Housing Tenancy Service/RTB Support Team, this proves to be a high interest area of fraud prevention work.

4.4 Social Housing Fraud (Tenancy Fraud)

4.4.1 Social housing fraud deprives legitimate tenants of access to affordable homes and has a direct impact on local people, their families, and communities.

4.4.2 The Corporate Fraud Service has received 35 case referrals around suspected Tenancy Fraud which have been / are currently being investigated. The Service has received referrals from other Social Housing Associations as the Councils have been granted additional powers under the Prevention of Social Housing Fraud Act 2013 to make enquiries to prevent fraudulent activity which currently Social Landlords do not have.

4.4.3 The Cabinet Office's National Fraud Initiative (NFI) (November 2018) advised the notional value of £93,000 per property recovered which took into account the annual cost of temporary accommodation (£18,000 pa), the duration for which fraudulent a tenancy may continue undetected (4 years) and other non-recoverable costs including legal costs to recover the property; re-let costs; and rent forgone during the void period between tenancies (£21,000).

4.4.4 Of the 35 cases reviewed (some still ongoing), 4 properties were returned to social housing usage. The prevention of potential financial loss per property recovered is calculated using the National Fraud Initiative figures. *NB: two additional properties were in the process of being handed back to the Council but due to COVID19 restrictions the possession action was not completed in these results.*

4.4.5

Tenancy recovered	No	Value
NFI Notional figures per property = £93,000	4	£372,000.00
Total		£372,000.00

4.5 Council Tax - Single Person Discount -

4.5.1 The majority of these 23 cases were referred to ARP, unless they are additional offences within the corporate fraud case, which the Team established due to these other offences which resulted in the removal of SPD entitlement as follows:

SPD	No	Value
Single Person Discount	5 cases	£4,698.17
Total		£4,698.17

4.6 National Fraud Initiative

4.6.1 The Corporate Fraud Service continues to participate in the 2019/20 Cabinet Office National Fraud Initiative (NFI) data matching exercise, results will be reported in due course. CTAX/SPD/LCTR matches are undertaken by Anglia Revenues Partnership as previously advised. The exercise is still underway with results to date reported at Appendix A.

5 EMBEDDING AN ANTI-FRAUD CULTURE

5.1 Through the strategic lead of the Head of Internal Audit, the Corporate Fraud Service (East Suffolk Council and Ipswich Borough Council) have co-operated in the development of common processes, policies, and training. The Anti-Fraud and Corruption Strategy has been reviewed, along with the Regulation of Investigatory Powers Act Policy and the

Whistleblowing Policy. Additional partnership arrangements are currently being addressed to assist in further joint fraud work.

- 5.2 The training opportunities offered by the Partnerships continue to be developed. In the last year there was joint training on subject matters as : Preventing and Detecting Grant Fraud (ITS); Prosecution Case File training (Bond Solon); Disclosure training (Bond Solon); Home Office Guidance training; Chartered Institute of Public Finance and Accountancy (CIPFA) fraud hub training.
- 5.3 Taking a wider corporate view as outlined in the Corporate Anti-Fraud Business Plan, the Service has forged stronger links with other services across the Councils to raise awareness of anti-fraud activity and will be continuing this in the new year 2020/21.
- 5.4 The Corporate Fraud Service facilitated additional staff members to undertake Identity Fraud Training by a trainer employed by the Eastern Region Special Operations Unit (ERSOU) Counter Terrorism Policing Command. This was to raise fraud awareness for new employees / human resources staff and any staff dealing with identity issues. This will be continuing in the new year 2020/21.
- 5.5 This Identification training will also be extended to external partnership representatives to widen the understanding of the fraud element in all businesses in respect of job applicants and being able to identify false ID docs and CVs.
- 5.6 To negate the fraud risks for recruitment purposes (such as allowing someone to be employed based on false documentation), fraud awareness training for all Recruiting Managers will continue into 2020/21. This area had been identified within a previous audit report as a “risk”, and additional enhanced checks are to be undertaken by the Corporate Fraud Service in respect of selected Council jobs (those that have significant responsibility for Council funds) as this is a growing area of identity fraud in the UK. Applicants would be advised that the post would be subject to enhanced checks.
- 5.7 The Corporate Fraud Service recognises the need to promote their corporate services to enhance better quality corporate fraud referrals, or interception at the earliest stage. Thus, consideration will be given to possible formal cautions or administration penalties instead of costly legal prosecutions. This is due to be on the agenda for the refreshed Council’s Enforcement Officers Group for discussion in the future. Also briefing the Communications Manager on successful cases to promote to the public that the Council is safeguarding public funds and recognised as good practice and does act as a fraud deterrent.
- 5.8 Corporate Fraud Officers are members of the National Anti-Fraud Network and the Local Authorities Intelligence Officers Group and Fraud Hub and National Crime Agency.
- 5.9 The Corporate Fraud Service participated in the International Fraud Awareness Week in November 2019. Some examples of the anti-fraud awareness and promotion involved emailing GP Surgeries a Fraud Awareness Poster to be included in their weekly newsletters; disseminating Fraud Awareness Poster to private and social landlords; leaflets/flyers provided to Customer Services to take to the Woodbridge Library, Felixstowe Library, Beccles, Library and the Marine Centre; email sent to all the East Suffolk Parish Councils containing the Fraud Awareness Poster; posters put up on the Notice Boards at East Suffolk Council offices and placed on the intranet and twitter and Fraud Awareness Posters sent to Representative at the Council’s Leisure Centres.
- 5.10 The Corporate Fraud Manager and Head of Audit and Fraud had programmed fraud awareness training including “Whistleblowing” to Officers and Partnership Organisations. In addition, there was also fraud awareness training arranged for the new East Suffolk Council Members elected in April 2019, covering aspects of corporate fraud awareness

training including identity fraud and cyber fraud. This training was cancelled and is due to be delivered as soon as possible in 2020/21 programme.

- 5.11 The Financial Investigators (within the Partnership) authorised under the Proceeds of Crime Act 2002 and the Serious Crime Act 2015 had previously provided training to various Council teams on the legal powers available to recover money obtained fraudulently by criminal acts. This programme will be reviewed and continue to be rolled out in 2020/21.
- 5.12 National fraud alerts provided by the National Anti-Fraud Network are regularly disseminated to the relevant teams across the Councils for fraud awareness in accordance with their distribution policy, in respect of fraud awareness.

6 CONCLUSION

- 6.1 The work of the Corporate Fraud Service, supported by Housing and Legal Services, has resulted in financial benefits to the Council both in preventing, and identifying/recovering fraudulent payments as follows:

Fraud Area	Financial Benefit of CFS Intervention
Right to Buy	£4,312,500.00
Tenancy Fraud	£372,000.00
Council Tax SPD	£4,698.17
Council Tax Debt recovery + costs	£5,689.52
	£4,694,887.69

7 HOW DOES THIS RELATE TO THE EAST SUFFOLK STRATEGIC PLAN?

- 7.1 This report represents the work of the Corporate Fraud Service which supports the delivery of all services across the Councils as described in the East Suffolk Strategic Plan.

8 FINANCIAL AND GOVERNANCE IMPLICATIONS

- 8.1 The Corporate Fraud Service has been delivered within the approved budget for 2019/20.
- 8.2 The Corporate Fraud Service conducts investigations in accordance with the Police and Criminal Evidence Act 1984, Criminal Procedures and Investigations Act 1996, Data Protection Act 2018, General Data Protection Regulation 2018, Human Rights Act 1998, Regulation of Investigatory Powers Act 2000, Investigatory Powers Act 2019, Criminal Justice Act 2003, Social Security Administration (Fraud) Act 2001, Council Tax Reduction Scheme (Regulations) 2012, Bribery Act 2010, Prevention of Social Housing Fraud Act 2013, Proceeds of Crime Act 2002, Money Laundering & Terrorist Financing (amendment) Regulations 2019 and the Criminal Finance Act 2017.

9 OTHER KEY ISSUES

- 9.1 This report has not required an Equality Impact Assessment.

10 CONSULTATION

- 10.1 Consultees – Cabinet Members with responsibility for Housing and Resources, Chief Executive, S151 Officer and External Auditor – Ernst and Young.

11 REASON FOR RECOMMENDATION

- 11.1 To ensure the Committee is apprised of the Corporate Fraud work and performance over the last year 2019-20, and to fulfil its terms of reference.

RECOMMENDATIONS

That the Audit and Governance Committee comments upon the performance of the Corporate Fraud Service for the year 2019/20.

APPENDICES

Appendix A	National Fraud Initiative Results 2019 – Anglia Revenues Partnership
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BACKGROUND PAPERS

Please note that copies of background papers have not been published on the Council's website www.eastsuffolk.gov.uk but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

Date	Type	Available From
March 2019	Corporate Fraud Business Plan 2019/20	Head of Internal Audit

**National Fraud Initiative Results 2019
Anglia Revenues Partnership**

The below table shows the results of the work undertaken by the Council's shared service partner, the Anglia Revenues Partnership in relation to results from the National Fraud Initiative exercise. These joint results, covering both the former Suffolk Coastal and Waveney District Councils, include both financial error and fraud.

	Joint Council Results (SCDC/WDC)
Council Tax – LCTS Reduction Scheme	£31,588.46
Council Tax – Single Person Discount	£401,487.43
Council Tax – Other	£5,170.73
NNDR	£9,347.23
Total	£447,593.85