

Finance and Resources Committee

10.00am, Tuesday, 5 September 2017

Fraud Prevention and Detection - Annual Report

Item number	7.10
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Executive/routine	
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Executive summary

The annual report provides an overview of fraud prevention and detection activities undertaken by Internal Audit and the Corporate Fraud Investigation Team in 2016/17.

Fraud Prevention and Detection - Annual Report

1. Recommendations

- 1.1 It is recommended that Committee:
- 1.1.1 notes the content of the Annual Report.

2. Background

- 2.1 In 2014 the City of Edinburgh Council ceased to investigate all Housing Benefit fraud, with the activity, and related staff, transferring to the Department for Work and Pensions' Single Fraud Investigation Service (SFIS).
- 2.2 The Council retained a group of counter fraud specialists to investigate and detect fraudulent activity that was out with the remit of SFIS. This team now focuses on external/customer fraud and works in tandem with Internal Audit, whose focus is detecting and preventing potential fraudulent activities by Council staff. Both areas are responsible for liaising with Council services to raise awareness of appropriate fraud prevention controls and counter measures.

3. Main report

Corporate Fraud Investigation Team

- 3.1 Over the last 12 months the Corporate Fraud Investigation Team (CFIT) has worked with service stakeholders to identify and tackle potential fraudulent activity. The Team's wide ranging focus has delivered a range of successful anti fraud campaigns:
- Benefit Administrative Penalties
 - Discretionary Housing Payments
 - Council Tax Reduction Scheme
 - Council Tax Recovery – Fraudulent Discounts & Exemptions
 - Recovered Tenancies – Illegal Sublets
 - Fraudulent use of Disabled Blue Badges
 - School Placements
- 3.2 During 2016/17, CFIT detected customer fraud in excess of £450k, with recovery action ongoing, whenever possible. These activities are described in Appendix 1.

- 3.3 CFIT continues to identify and implement joint activities with various Council services and relevant public agencies to prevent and tackle fraud.
- 3.4 Following a successful three month pilot with Transport colleagues, CFIT is now responsible for investigating the potential fraudulent use of Blue Badge parking permits. In conjunction with the parking service, the team issue parking tickets for a first offence and in more serious misuse cases vehicles are removed to a secure Council pound and, if appropriate, individuals can be reported to the Procurator Fiscal.
- 3.5 Since April 2015, the CFIT has worked closely with Council Housing/Housing Associations to monitor and recover properties that have been illegally sublet. During 2016/17, 12 illegal sublet properties were identified and recovered as a result of CFIT action. In addition to the financial benefits outlined in Appendix 1 this important work ensures that properties are being used by tenants, who have been appropriately assessed and prioritised.
- 3.6 A similar joint working venture with Communities and Families has targeted fraudulent school placement applications and prevented children being incorrectly placed in schools out with the appropriate post code area. In all cases where a fraudulent application has been identified placement offers were withdrawn. This work has been identified as best practice by other local authorities, and, combined with other campaigns, resulted in the team being shortlisted for a prestigious national award.
- 3.7 CFIT also has a close working relationship with Police Scotland, with shared intelligence and resources to progress a range of activities, including:
- tenancy fraud investigations;
 - data protection requests; and
 - joint stop and search operations.

National Fraud Initiative

- 3.8 The Council participates in Audit Scotland's National Fraud Initiative (NFI). This is a comprehensive data matching exercise that operates over a two year rolling period and compares information held within public bodies' systems.
- 3.9 As part of this process, the Council undertake an ongoing review of the Council's internal controls and the National Fraud Initiative database to ensure that checks are complimentary. A series of risk workshops were held in 2016 with representatives from CFIT, Internal Audit and key services to identify a comprehensive review regime. This resulted in the Council investigating over 80% of the NFI's recommended matches for the current period, with the remaining 20% of matches already covered by existing internal controls. This approach was discussed and agreed with Audit Scotland.

- 3.10 As a result of these activities, £24k has been recovered, as described in Appendix 2.

Employee Fraud - Internal Audit

- 3.11 The Council operates a web based system that allows the public to report suspected cases of fraud. The system is overseen by Internal Audit (IA) and following an initial assessment by IA, allegations against Council employees are referred to the relevant service area for investigation. These allegations are tracked by IA and investigation outcomes are reported as part of the annual fraud detection report. All external allegations are passed to CFIT who engage relevant service areas or outside agencies to complete the investigation. Where appropriate both CFIT and Internal Audit provide advice and assistance to support investigations.
- 3.12 In 2016/17, 382 allegations were made by the public. Many of these included multiple fraud allegations, resulting in 466 issues requiring to be reviewed. A breakdown of these cases is included in Appendix 3.
- 3.13 Two allegations were made against Council employees, the first relating to an alleged theft of tools which could not be substantiated. The second in relation to a phantom employee was found to be unfounded and potentially vexatious.
- 3.14 In addition, in 2016/17 IA either directly, or via the Council's Monitoring Officer, received four reports of suspected financial internal irregularities. Of these four reports, two resulted in staff being dismissed and reported to Police Scotland. The relevant areas were Debt Recovery (£11,000) and Schools and Lifelong Learning (£9,000). Both cases were reported to Audit Scotland, in line with agreed audit practice. Internal controls were strengthened in both areas to prevent any reoccurrence.
- 3.15 The third, a theft of £1,700 from a Council bar could not be satisfactorily investigated due to weak operating procedures in place at the time. This has been subsequently addressed by the service to mitigate against any repeat activity. The fourth allegation was found not to have substance.

Policy and Procedures

- 3.16 The Council is committed to preventing and tackling fraudulent activity. Fraud detection and prevention activities are detailed in a range of Council policies and these are subject to ongoing review to ensure they are comprehensive and consistent with existing best practice.
- 3.17 Both CFIT and IA's 2017/18 work programme include targeted action to support these policies and raise awareness of appropriate fraud prevention controls and counter measures.

4. Measures of success

- 4.1 Success can be measured through the following outcomes:
- improved service co-ordination to tackle fraudulent activities; and
 - ongoing development of sophisticated fraud detection methods.

5. Financial impact

- 5.1 While there is no direct financial impact as a result of this report, the actions of Internal Audit and the Corporate Fraud Investigation Team provide both a financial safeguard and a deterrent to potential fraudulent activities.

6. Risk, policy, compliance and governance impact

- 6.1 The work of the Corporate Fraud Investigation Team and Internal Audit continue to promote an anti-fraud culture within the Council and both functions help to ensure the highest standards of probity and public accountability.

7. Equalities impact

- 7.1 There are no additional equalities and rights related impacts arising from this report.

8. Sustainability impact

- 8.1 There are no direct sustainability impacts as a result of this report.

9. Consultation and engagement

- 9.1 This report has been completed following consultation with the Chief Internal Auditor.

10. Background reading/external references

[Corporate Debt Policy – Annual Update](#), Corporate Policy and Strategy Committee, 9 June 2015

[Corporate Fraud and Corruption Policy – Annual Report – Governance, Risk and Best Value Committee, 15 August 2013](#)

[Policy on Fraud Prevention](#)

[Policy on Anti Bribery](#)

Stephen S. Moir

Executive Director of Resources

Contact: Nicola Harvey, Head of Customer

E-mail: nicola.harvey@edinburgh.gov.uk 0131 469 5016

11. Appendices

Appendix 1 - Corporate Fraud Team - 2016/17

Appendix 2 - Corporate Fraud Team - 2016/17

Appendix 3 - Public Reported Cases of Suspected Fraud

Corporate Fraud Team - 2016/17

During 2016/17, the Corporate Fraud Investigation Team (CFIT) detected customer fraud of over £450k, with recovery action ongoing, wherever possible.

- **Benefit Administrative Penalties (£38k)**
Administrative penalties occur when a Benefit claimant deliberately fails to provide details of a change of circumstance, which then results in a benefit overpayment. The Council investigate these cases on behalf of the Secretary of State.
- **Discretionary Housing Payments (£5k)**
These payments are awarded to claimants in receipt of Housing Benefit and suffering from financial hardship. Overpayments occur when a claimant fails to provide the correct information when applying or fails to report a change in circumstances.
- **Council Tax Reduction Scheme (£170k)**
CTRS is available to claimants who are experiencing financial difficulties and find themselves unable to make their Council Tax payments. Payments in error occur when a claimant fails to provide the correct information when applying for the scheme or fails to report a change in circumstances.
- **Council Tax Recovery – Fraudulent Discounts and Exemptions (£19k)**
Discounts and exemption incorrectly applied due to customer providing false information or failing to report a change of circumstance e.g. student status, empty properties etc. NB: Additional discounts and exemptions are also removed as part of ongoing business review activities, however, these are not classified as fraudulent for the purpose of this report.
- **Recovered Tenancies – Illegal Sublets (£216k)**
Recovery of illegal sublet of Council homes. The Audit Commission recommend that Local Authorities use a notional figure of £18k when calculating potential loss to the Council. This figure incorporates the cost of temporary accommodation for genuine applicants, legal costs to recover the property, re-let cost and the rent foregone during the void period between tenancies.
- **Fraudulent use of a Disabled Blue Badges (£4k)**
This activity ensures that disabled parking is used appropriately across Edinburgh. This revenue includes car pound fees and parking ticket penalties.
- **School Placements (No direct saving)**
This important work ensures that school catchment areas are appropriately applied. While there are no direct financial implications this activity ensures genuine applications are less likely to be declined and avoids the cost of hiring more teachers and classroom assistants due to fraudulent activity.

National Fraud Initiative

Dataset	Example of possible Fraud	Cases Investigated	Category	Outcome
Pensions	Obtaining the pension payments of a deceased person	904	All matches	1 fraudulent claim
House Rents	Inappropriate tenants	122	Recommended matches	No fraud
Housing Benefits*	Incorrectly claiming benefits	2151	Recommended matches	1 fraudulent claim
Payroll/HR	Obtaining employment when not entitled to work in the UK	250	All matches	No fraud
Tenants Right to Buy	Inappropriate purchase of property	20	All matches	No fraud
Trade Creditors Standing Data	Erroneous payments where is supplier set up with more than one reference	46	Sample completed due to low level of risk	No fraud
Trade Creditors History	Possible duplicate payments for same goods/services	70	Sample completed due to low level of risk	No fraud
Blue badge permit	Permit used by someone other than approved user	1313	All matches	No fraud
Private supported care home residents	Payments for deceased resident	147	All matches	No fraud
Income/ Council Tax**	Incorrectly claiming exemptions	76	All matches	No fraud

* As part of this process the Council undertakes a review of the Housing Benefit caseload to identify any discrepancies. Cases are then passed to SFIS for further action. After SFIS have completed their investigation, cases are returned to CEC for relevant system updates, and overpayment recovery action instigated.

**As noted in the main report the Council undertake a range of Council Tax checks, including a dedicated single occupancy review. This review is not included in this report as single occupancy review activities are undertaken on a rolling basis. This is expected to add almost £1m to the Council's overall Council tax collection.

Public Reported Cases of Suspected Fraud

Category	Number of Reported Cases
Benefits of Council Tax	342
Tenancy/Other Housing	92
HMO/Private Landlord	6
Non-Domestic Rates	9
Blue Badges/Parking	4
Miscellaneous	4
Not CEC – Refer to Police	7
Allegations against Staff	2
Total	466