Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 20th March 2015

Subject: Leeds City Council Fraud Briefing

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐	Yes	☒	No
Are there implications for equality and diversity and cohesion and integration?	☐	Yes	☒	No
Is the decision eligible for Call-In?	☐	Yes	☒	No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐	Yes	☒	No

Summary of main issues

1. Leeds City Council is committed to the highest standards of openness, probity and accountability. To underpin this commitment, the council takes a zero tolerance approach to fraud and corruption and is dedicated to ensuring that the organisation operates within a control environment that seeks to prevent, detect and take action against fraud and corruption.

2. The Audit Commission publishes an annual report on fraud and corruption in Local Government called Protecting the Public Purse (PPP). The publication provides details of the amount of detected fraud, warns of emerging fraud risks and promotes best practice across the sector. Much of the information for PPP is drawn from the results of the annual Fraud and Corruption Survey.

3. To accompany PPP and to give focus to local priorities, the Audit Commission produces a Fraud Briefing which has recently been provided to the council by the external auditors. This uses the results of the Fraud and Corruption Survey to provide an information source to support councillors in considering their council's fraud detection activities, extending an opportunity for councillors to consider fraud detection performance in comparison with similar local authorities. The Leeds Fraud Briefing 2014 has provided Internal Audit with the opportunity to produce this report to the Corporate Governance and Audit Committee, summarising the work undertaken across the council in respect of the key risk areas identified within the briefing.

4. The Leeds City Council Fraud Briefing 2014 is attached to this report.

Recommendations

5. Members are asked to receive the Leeds City Council Fraud Briefing 2014 and to note the contents and assurances provided within this report. Members are asked to receive these assurances on an annual basis going forward.

1   Purpose of this report

1.1   The purpose of this report is to provide further information on the Leeds City Council Fraud Briefing 2014 (see attached) and summarise the council's counter fraud activities and performance throughout 2013/14.

2   Background information

2.1   The Corporate Governance and Audit Committee (the committee) has responsibility for reviewing the adequacy of the Council's Corporate Governance arrangements, including matters such as internal control and risk management. As such, the council's performance in preventing and detecting fraud is a key source of assurance providing the Committee with some evidence that the internal control environment is operating effectively.

2.2   The annual Audit Commission Fraud and Corruption Survey can provide a valuable source of assurance to the committee on the effectiveness of the council's approach to preventing and detecting fraud. The survey establishes counter fraud performance statistics based on facts, collecting details of detected incidents of fraud and corruption where action has been taken following an investigation or enquiries, and as a result an officer with management authorisation has determined that on the balance of probabilities a fraud or act of corruption has occurred. In some cases, councils report that they have detected fraud but do not record the number of cases or the value within the Fraud and Corruption Survey. For the purpose of the Fraud Briefing, these records are shown as nil cases detected.

3   Main issues

3.1   The Audit Commission publishes an annual report on fraud and corruption in Local Government called Protecting the Public Purse (PPP). This publication provides details of the amount of detected fraud, warns of emerging fraud risks and promotes best practice across the sector. Much of the information for PPP is drawn from the results of the annual Fraud and Corruption Survey which were collated by the Audit Commission in May 2014 prior to publication at the end of October.

3.2   To accompany PPP and to give focus to local priorities, the Audit Commission compiles a Fraud Briefing which has recently been provided to the council by the external auditors. This uses the results of the Fraud and Corruption Survey to provide an information source to support councillors in considering their council's fraud detection activities, extending an opportunity for councillors to consider fraud detection performance in comparison with similar local authorities. Detected fraud levels are indicative, not definitive, of counter fraud performance. Lower detection rates do not necessarily demonstrate a failure to find fraud, and may be indicative of robust internal controls that operate in the prevention and deterrence of fraud.

3.3   As custodians of the council's anti-fraud and corruption policy framework and owners of the fraud and corruption risk, Internal Audit adopts an overarching

responsibility for reviewing the council's approach to preventing and detecting fraud. Working alongside dedicated specialist teams and services across the council, Internal Audit draws upon best practice and guidance from a number of sources to assist in steering the focus and direction of counter fraud activities. The audit planning process identifies and assesses the risks that the authority is exposed to across all areas of operation, arriving at a detailed plan of work that is reflective of the level of risk faced which aims to ensure that there are adequate and proportionate controls in place to address the risk of fraud and corruption.

3.4   The Leeds City Council Fraud Briefing 2014 identifies the key fraud risk areas, and is broken down into sections setting out the outcomes in respect of fraud detection across each area. The council's efforts are focussed on counter fraud activity in these key areas alongside other areas of emerging risk. The Fraud and Corruption Survey, from which the results of the briefing are drawn, includes varying definitions of what constitutes fraud within each risk area. As such, the associated definitions and interpretations have been set out at the start of each section of this report. In total, Leeds detected 441 cases of fraud at a total value of £1,084,579 during 2013/14. Further information on the risk areas covered by the Fraud Briefing will inform the remainder of this report.

Housing Benefit and Council Tax Benefit 2013/14

3.5   *The Fraud and Corruption Survey includes all cases where management action has been taken, such as an investigation or enquiries made, and as a result an officer with management authorisation has determined that on the balance of probabilities a fraud or act of corruption has occurred. As such, cases do not require a sanction or prosecution to be determined as fraudulent.*

3.6   During the course of 2013/14, Internal Audit carried out a review of the arrangements in place to prevent and detect fraud at Leeds Benefit Services (LBS). The audit provided substantial assurance on the controls in place, noting the adoption of the Department for Work and Pensions (DWP) Operational Strategy and Prosecution Policy leading to the prioritisation of the most serious fraud cases. In 2013/14 Leeds detected 133 cases of Housing Benefit and Council Tax Benefit Fraud at a total value of £1,029,168. Whilst the number of cases detected by Leeds was below the average for other Metropolitan District Councils, the value of the detected fraud was significantly higher. This reflects the success of the LBS Fraud Team in focusing on the investigation of high value prosecutable fraud cases in accordance with the adopted strategy.

Council Tax Discount Fraud

3.7   *The survey records the total value, including previous years, of council tax owed when a decision during the year determined that the liable person was not entitled in whole or part to any discount or entitlement.*

3.8   Where non entitlement to a Council Tax discount is discovered, Leeds City Council will cancel the discount and pursue recovery of the monies where possible. There are comprehensive recovery procedures in place to cover all aspects of Council Tax recovery in line with legislation, and Leeds' Council Tax systems were provided with substantial assurance following the annual internal

audit. The service has utilised a number of controls to detect fraudulent discount claims, including activities ranging from data matching exercises, to the issuing of Council Tax Review forms with annual bills. During the period of the survey, the Council Tax team did not record the cumulative value of the Council Tax discounts cancelled and associated recoveries. As a result, Leeds is one of a number of authorities that records no fraud detected for the purpose of the survey. However, Single Person Discount (SPD) review forms issued with 2014/15 annual bills resulted in 975 SPD cancellations, and the council is now set to undertake an extensive SPD review using data matching aimed at further enhancing revenues from the detection and recovery of ineligible discount claims.

Social Housing Fraud

3.9   *Social Housing Fraud includes sub-letting fraud, where a tenant lets part, or all of their home to somebody else contrary to the tenancy agreement. Social housing fraud also includes, but is not limited to, issues such as fraudulent application, succession abandonment, or non-occupation of the principal home. The Fraud and Corruption survey only reports on instances where the property has been brought back into council or ALMO control.*

3.10   In 2013/14 Leeds recovered 42 properties, comprising of 17 cases of sub-letting fraud and 25 cases arising from other types of tenancy fraud. This is above the average number of properties recovered by other Metropolitan District Councils, and double the number of properties recovered by Leeds in 2012/13. There are a number of controls in place including the posting of dedicated tenancy fraud officers who work with the registered social landlords across the city area, the regular meeting of the Housing Tenancy Fraud Forum and the use of other tools such as the National Anti-Fraud Network (NAFN), the National Fraud Initiative (NFI), and other counter fraud initiatives. In previous years, housing teams have provided lettings self-assessments to Internal Audit as a means of providing assurances that controls in place to allocate lettings are being correctly applied, and Internal Audit is proposing to undertake further work in this area following the Housing Leeds restructure.

Right to Buy Fraud

3.11   *Right to Buy (RTB) fraud could include misrepresenting the length of the tenancy to gain a greater discount; concealing a tenancy history for example not disclosing previous rent arrears, possession orders, transfers or evictions; attempting to purchase a property whilst not using it as your sole or principal home; misrepresenting the household composition for example submitting a joint RTB application with someone who does not reside at the property, or has not done so for the required period.*

3.12   In 2013/14 Leeds detected one case of RTB fraud at a value of £24,000. This has been determined by the value of the discount calculated. Other Metropolitan District Councils with housing stock detected an average of one case valued at £108,970. The council undertakes various checks at application stage and instances of suspected fraud are passed to the Tenancy Fraud Investigators for further investigation in an attempt to prevent any fraudulent applications from

progressing. The last audit of Right to Buy provided good assurance for both the control environment and compliance with the control environment.

Disabled Parking (Blue Badge) Fraud

3.13 *This type of fraud includes any cases of disabled parking concessions, including false representation of renewal after the initial holder has died.*

3.14 In 2013/14 Leeds detected 280 cases which was higher than any of the other Metropolitan District Councils included on the briefing. The figures reported by Leeds include instances in which the badge had been found to be used without the presence of the badge holder. Abuse of the badges in this manner deprives an individual with genuine need and entitlement to disabled parking facilities. Internal Audit receives referrals from members of the public who have concerns relating to badge abuse through the council's Raising Concerns Policy. This Policy enables members of the public to raise any concerns that they have around a fraud, malpractice or wrongdoing. Internal Audit has also recently carried out a review of the eligibility and assessment procedure and provided substantial assurance on the controls in place to ensure that blue badges are correctly awarded in accordance with Department for Transport guidelines.

Procurement Fraud

3.15 *This type of fraud is defined as any fraud linked to the false procurement of goods and services for the organisation either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts, records or methods of payment; failure to supply; and failure to supply to contractual standard.*

3.16 Procurement fraud can be difficult to detect, particularly when suppliers are acting in collusion, and whilst Leeds reported no detected cases of procurement fraud in 2013/14, the work carried out by Internal Audit and within the Public Private Partnerships and Procurement Unit itself is key to providing ongoing assurances that the council is operating a robust system of internal control in this area. A significant proportion of the annual Internal Audit Plan is devoted to undertaking proactive procurement based audits, including contract management audits selected on a risk basis to provide assurance that there are adequate governance arrangements in place to monitor the delivery of services in line with the contracts in place. The council is also engaged in establishing a Competition Damages Recovery Unit, working with partners including 52 other local authorities, the Chartered Institute of Public Finance and Accountancy (CIPFA) and a private solicitor, to recover illegal overpayments on purchases made.

Insurance Fraud

3.17 *Insurance fraud is defined as any claim against your organisation or your organisation's insurers that proves to be false.*

3.18 The council's insurance investigation service has been provided by an external contractor, and emphasis has been placed on preventing insurance fraud from taking place and ensuring that suspected false claims are duly referred to the

contractor's dedicated fraud investigation unit for further investigation prior to any pay out. As a result, Leeds reported no detected cases in 2013/14, with the nil return based on recorded proof of fraud in individual cases. This would take the shape of an arrest, a civil judgement, or a finding in a magistrate's court or higher. There were no instances which escalated to this level.

Social Care Fraud

3.19 *This is defined as any fraud linked to social services provision including, but not limited to: false payments to contractors for house modifications; personalised budgets for the purchase of care; failing to declare capital and assets; and care provision by contractors or a nongovernmental organisation which are not for the benefit of the person being cared for.*

3.20 The council has a team of staff within the service that undertake cyclical audits of direct payments and personal budgets on a risk basis. Where it is found that direct payments have not been utilised in accordance with the agreement in place, the council will seek to recover the monies, however this would not necessarily be recorded as fraud. In 2013/14, Leeds reported one case of detected fraud at a £17,231.19, however the value of monies recovered through the audit process was several times higher than this. Internal Audit has carried out data matching exercises alongside local partners in respect of personal budgets and direct payments, and carries out annual audits of care payments. Good assurance has been provided for the controls in place. Internal Audit also previously carried out proactive exercises to review payments made to home care providers and found that appropriate controls were in place to enable the detection of fraud.

Internal Fraud

3.21 *Internal fraud has a far reaching definition, and can include instances such as abuse of position, manipulation of financial or non-financial data, and employee contract fulfilment fraud.*

3.22 A robust system of internal control is key to preventing and detecting internal fraud, and the risk based audit plan is geared towards ensuring proportionate audit coverage in identified risk areas. The visible presence of Internal Audit, including the unannounced visit programme, acts as a deterrent to internal fraud across the organisation. Effective whistleblowing channels are also key to ensuring that instances of internal fraud can be brought to the attention of Internal Audit, enabling the associated risks to be addressed at the earliest possible stage. The council has reviewed its whistleblowing procedures in accordance with the Whistleblowing Code of Practice and signed up to the Public Concern at Work First 100 campaign to demonstrate a commitment to upholding the principles of the code and embedding a culture in which concerns can be raised confidently through accessible channels. In 2013/14, Leeds detected 10 cases of internal fraud at a value of £7,758. Internal Audit logged a total of 64 whistleblowing cases throughout the period, and even where subsequent investigation finds no confirmed evidence of fraud, the whistleblowing procedures provide a valuable means of enabling any identified internal control weaknesses to be duly addressed with the relevant services.

3.1   **Consultation and Engagement**

3.1.1   This report did not highlight any consultation and engagement considerations.

3.2   **Equality and Diversity / Cohesion and Integration**

3.2.1   This report does not highlight any issues regarding equality, diversity, cohesion and integration.

3.3   **Council policies and City Priorities**

3.3.1   The Council takes a zero tolerance approach to fraud and corruption and therefore an assessment of the fraud detection performance is a key source of assurance in ensuring that internal controls and whistleblowing procedures are operating effectively to counter fraud.

3.4   **Resources and value for money**

3.4.1   The council's counter fraud activities are an important driver in ensuring that resources are protected and that value for money is obtained in the council's work.

3.5   **Legal Implications, Access to Information and Call In**

3.5.1   None.

3.6   **Risk Management**

3.6.1   The continuing review of the controls in place to prevent and detect fraud will assist in identifying key risks and priority areas that may be in need of additional investigation and resource.

4   Conclusions

4.1   The Corporate Governance and Audit Committee is provided with assurances that the council is operating a robust system of internal control to prevent, detect and address the risks associated with fraud and corruption. The council has a number of dedicated teams operating across the organisation, and the risk based audit plan has been developed to provide assurances that proportionate controls have been implemented and embedded within identified risk areas.

4.2   The Leeds City Council Fraud Briefing 2014 provides a measure of the council's performance in detecting fraud and corruption across key risk areas during 2013/14. The results set out within the publication, alongside wider performance measures and assurances, inform the ongoing review of counter fraud procedures and focus across the council and have been considered in the development of the audit plan for 2015/16.

5   Recommendations

5.1   Members are asked to receive the Leeds City Council Fraud Briefing 2014 and to note the contents and assurances provided within this report. Members are asked to receive these assurances on an annual basis going forward.

6   Background documents

6.1   None.