

AUDIT COMMITTEE	AGENDA ITEM No. 6
22 MARCH 2021	PUBLIC REPORT

Report of:	Peter Carpenter, Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

INVESTIGATING ALLEGATIONS OF FRAUD

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	Deadline date: N/A
<p>It is recommended that Audit Committee note:</p> <ol style="list-style-type: none"> 1. The proposed changes made to ensure efficient delivery of fraud investigations; 2. Works to date in relation to meeting the requirements of the National Fraud Initiative; and 3. Outcomes from national studies and future proposals. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee to provide awareness of some of the steps undertaken within the Council to tackle fraud and corruption within the Council.

2. PURPOSE AND REASON FOR REPORT

2.1 The Council provides a raft of services to the public from its scarce resources. Every effort is made to ensure that the resources are used for their intended purpose. However, there are occasions when this may not always be the case and the Council needs to have appropriate mechanisms to protect the public purse. This report sets out some of the Council's approach to tackling fraud and corruption.

2.2 This report is for Audit Committee to consider under its Terms of Reference 2.2.2.15 "To monitor Council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the Council's complaints process".

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

4.1 Introduction

4.1.1 The Accounts and Audit Regulations 2015 state that the Council must have measures in place “*to enable the prevention and detection of inaccuracies and fraud*”. Fraud also refers to cases of bribery and corruption. The Councils Financial Regulations Section 4.4 “*Preventing Fraud and Corruption*” set out its position. It requires the Corporate Director of Resources to lead on the development of anti-fraud policies, with all Directors responsible for reporting and operating in accordance with those policies.

4.1.2 The Council’s approach to tackling fraud and corruption is underpinned by a range of policies and procedures which set out ways in which concerns can be raised, investigated and reported and appropriate action taken. This report sets out the details in relation to:

- Anti-Money Laundering Policy;
- Sanction and Prosecution Policy (Council Tax and Business Rates); and
- Sanction and Prosecution Policy (Blue Badge and Car Park Permits)

4.1.3 Similarly, external organisations provide support and evidence which can be used to target potential fraud against PCC. An example of this is the regular National Fraud Initiative which has been in place since 1994 and undertaken every 2 years. In addition, Business Grants paid out as part of the pandemic response have also been included in these checks to ensure that the public purse is protected.

4.2 Corporate Policies

4.2.1 It is important that the Council has policies and procedures in place which are fit for purpose and are effective in preventing, detecting and investigating fraud where it occurs. Staff, agency workers and Members need to be made aware of, be able to understand and comply with the policies and procedures which comprise the Council’s counter fraud framework. Staff agency workers, Members and citizens must have confidence in the reporting arrangements and subsequent investigation of concerns which can be reported via the various channels available.

4.2.2 A review of the existing policies has been undertaken. Each of the three policies remain relevant and up to date and no changes are proposed. They were included as appendices in July 2020 for reference.

4.2.3 A key aspect for fraud policies has been the ability to prosecute should the need arise. With the ongoing lockdown arrangements Courts have not been open to enable these to be prosecuted. Our policies allow for such eventualities. For example, in the normal course of events for investigating Council Tax Reduction Scheme, once evidence is established that there has been a fraud committed, the claimant is interviewed under caution. This can lead to either an Administration Penalty levied (an additional 50% of the overpayment) or can proceed to prosecution. With lockdown, we do not have the ability to complete these interviews and over time these cases can become time barred in relation to prosecution.

4.2.4 Our policies allows for the Council to levy a Civil Penalty for either incorrect statements or a failure to notify change of circumstances. Each allows PCC to impose a penalty of £70 where an incorrect statement or representation has been made, as long as the person has not been charged with a Local Council Tax Reduction offence or been offered a Caution or Financial Penalty. This is in addition to the recovery of the overpayment. It is seen as a more efficient use of our scarce resources. It is a similar approach adopted by a number of neighbouring authorities.

4.3 National Fraud Initiative 2020

- 4.3.1 This is a biennial data matching exercise whereby all Local Authorities and some government agencies match their data to prevent and detect fraud and error in their systems. The NFI compares different sets of data, for example payroll and benefit records against other records held by the same or other organisation, bringing to light potentially fraudulent claims and payments. Where a match is found it may mean that further investigation is required.
- 4.3.2 The NFI has been running since 1994, and was originally managed by the Audit Commission. The Commission processed the NFI data under its statutory powers under Part 2A of the Audit Commission Act (1988). The Serious Crime Act 2007 (SCA) gave the Commission new powers to enable the benefit of NFI to be extended to Central Government and the private sector. The SCA inserted a new paragraph into the 1998 Audit Commission Act. The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the exercise must by law, have regard to a statutory Code of Data Matching Practice.
- 4.3.3 Over time the exercise has evolved to extend across all Local Authorities in the United Kingdom and now includes pension details from the Police, Health Service and Fire Service. The exercise is now managed by the Cabinet Office following the dissolution of the Audit Commission in 2015. Each authority has a responsible officer and data coordinator specialist. These are the Corporate Director of Resources and the Chief Internal Auditor respectively.
- 4.3.4 The current exercise started in autumn 2020 when data was supplied for matching purposes. These are coordinated centrally, some data quality checks are performed, for example, to ensure that forenames / surnames are not held in address fields and vice versa.
- 4.3.5 The data was submitted to the Cabinet Office in October 2020 and following data submissions by other organisations the outputs began to be released at the end of January 2021. These will be supplemented throughout the year as and when late data provider information is matched.
- 4.3.6 The datasets provided:
- Blue Badge Parking Permits (data provided by national software provider)
 - Concessionary Travel Passes
 - Creditors (Payment data and Supplier references)
 - Council Tax Reduction Scheme recipients
 - Council Tax Single Person Discounts
 - Housing Benefits (data provided by DWP)
 - Payroll
 - Resident Parking Permits
 - Single Person Discount
 - Taxi Drivers
 - Waiting List
- The following datasets were withdrawn from the national exercise due to limited matches and success in previous years. They remained discretionary and PCC took the decision to not include.
- Market Traders
 - Personal Alcohol Licence Holders
- The following datasets are normally collected as part of the exercise but a national decision was taken to defer these until later in the year.
- Personal Budgets
 - Private Residential Care Homes
- 4.3.7 The matched data is contained on a secure website and access is granted to selected

officers. The NFI system has its own inbuilt risk assessment system and this is used as guidance to prioritise those matches which need attention. Each report type is subject to a preliminary assessment and the high risk matches are reviewed first. There are usually extremely large volumes of matches received and consequently the risk rating allocated by the NFI is essential in helping prioritise the workload. Initial matches are as follows:

	Records (*)	High	Medium	Low	Total
Blue Badge Parking Permit	Unknown	334	82	7	423
Concessionary Travel Pass	25,567	614	538	1	1,153
Council Tax Reduction Scheme	14,004	28	14	391	433
Housing Benefit Claimants	Unknown	24	10	57	91
Payroll	1,789	3	0	33	36
Residential Parking Permit	559	1	2	0	3
Taxi Drivers	1,208	1	0	0	1
Waiting List	4,531	460	13	1	474
TOTAL MATCHES		1,465	659	490	2,614

(*) The number of records identified for that dataset and submitted for matching against other authorities etc.

4.3.8 Work is due to commence to verify the data in relation to these datasets. Key points which will also need to be addressed are:

- Data quality.
- Timeliness of records being updated.
- Other agency referrals.

4.3.9 Similarly results have been received in relation to creditor payments. The majority of datasets are based on the actual data as at 30 September 2020. For creditors this covers the previous 3 years (i.e. 1 October 2017 – 30 September 2020). The number of records submitted were 179,144 individual payments made during the period against 3,790 suppliers. This resulted in the following matches:

Payroll to Creditors	176
Duplicate Creditors (Various matches)	2,823
VAT Overpaid	330
TOTAL MATCHES	71

4.3.10 Previous exercises have noted the following observations:

- Payroll matches identify instances where an employee and creditor are linked by the same bank account or the same address which could indicate employees with interests in companies with which Peterborough is trading. This could indicate potential undeclared interests and possible procurement corruption or where a member of staff has set up a creditor with their own bank details in order to receive payments they are not entitled to.
- Duplicate creditors have been identified through a number of matches. Overwhelming, the majority of the matches can be linked to data quality. For example, the company name may have been misspelt or moved address but are linked by the same bank account. Similarly, a number of recurring quarterly payments have been identified, for example, energy payments.

4.3.11 Separate results are received in relation to Council Tax Single Person Discounts. The Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption / discount. Council taxpayers are under a duty to report within 21 days if they think they should no longer qualify for a discount. The Council has in excess of 26,000 households within Peterborough who currently receive the 25% discount.

- 4.3.12 While most residents are claiming the discount appropriately, there are likely to be a minority who are attempting to defraud the system. From the records submitted, PCC has 143,596 entries on the Electoral Roll and 87,344 on Council Tax. The potential anomalies for investigation to verify data held to look to cancel identified errors or fraudulent claims are shown below.

Council Tax to Electoral Register	3,251
Council Tax to Rising 18s	103

- 4.3.13 Matches identify addresses where the householder is claiming a SPD on the basis that they live alone yet the electoral register suggests that there is more than one person in the household aged 18 or over. The electoral register also includes details of individuals who are approaching their 18th birthday. Unless there is an exemption, for example, a student, then the single person discount would need to be revoked from the date of their birthday.
- 4.3.14 NFI continues to be an important exercise for detecting fraud across the public sector. With more and more datasets being requested and the increasing numbers of organisations matched against, there is a risk that this could become unmanageable to keep track of and do justice to the wealth of data and matches received.
- 4.3.15 Works are coordinated and investigated through Internal Audit currently but going forward greater ownership is required by the organisation to manage and regularly update its own records – enhancing the data quality so as to reduce the number of matches to those of highest fraud risk only.

4.4 **Business Grants**

- 4.4.1 Due to the national pandemic, numerous grants have been paid to local authorities for distribution across their areas. One such grant relates to businesses. To date, 3 separate schemes have been in place. This data is not part of the mandatory bi-annual NFI exercise, however an opportunity was made available to all authorities to use that tool to assist in verification of payments made.
- 4.4.2 Grant payments made to businesses have been coordinated through Revenues and Benefits. The basis of the payments are based upon records held within Business Rates and a number of additional checks were undertaken prior to payments being made. Data matching has focused on two keys areas, namely verification of the bank account and also an active company check. There is also a combined check. NFI has similarly risk assessed the matches so as to enable PCC to focus on the higher risks.

Submission 1	High	Medium	Low	Total
Bank Account Verification	17	204	659	880
Active Company Check	4	8	81	93
Combined	88	466	826	1,380
	109	678	1,566	2,353

Submission 2	High	Medium	Low	Total
Bank Account Verification	3	21	127	151
Combined	27	100	135	262
	30	121	262	413

- 4.4.3 Following on from this initial exercise, which was focusing on the legitimacy of the businesses being operational in each authority area this dataset is now to be mandatory for future matching against other authorities.

4.5 **Fraud Communications**

4.5.1 Regular communications are produced by the Cabinet Office to advise on the matches, case studies in relation to the exercise as well as its raising its profile. The latest edition for Members information is attached at **Appendix A**.

5. **CONSULTATION**

This progress report is subject to consultation with the Corporate Director of Resources and the Director of Law and Governance.

6. **ANTICIPATED OUTCOMES OR IMPACT**

Raised Audit Committee awareness of the policies and processes in place to investigate potential fraudulent activity against the Council.

7. **REASON FOR THE RECOMMENDATION**

To enable Audit Committee to meet an element of its Terms of Reference. Peterborough is subject to providing services with finite resources. The revised policies provide a clear steer on how the authority will look to reduce the abuse of, and fraudulent access to those resources. The outcomes from NFI provides Audit Committee with details as to the potential extent of fraud and corruption in a number of key areas.

8. **ALTERNATIVE OPTIONS CONSIDERED**

The Council cannot do nothing. This would not be the best use of scarce resources. The policies provide a platform for better monitoring and detection of fraud and corruption. NFI is a mandatory service.

9. **IMPLICATIONS**

Financial Implications

The investigation works undertaken to date are encompassed within existing budgets. The successes of these can lead to the recovery of overpayments, as well as increased Council Tax by the removal of single person discounts together with a potential small return due to additional civil penalties.

Legal Implications

None

Equalities Implications

None

10. **BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None.