

Counter Fraud - Council Tax Fraud Report

Audit & Scrutiny Committee Thursday, 8 July 2021

Report of: Alison Boote - Executive Head of Communities

Purpose: For information

Publication status: Unrestricted

Wards affected: All

Executive summary:

This report provides details of a council tax fraud discovered in December 2019. It details the actions taken and controls put in place to reduce the risk of a similar fraud occurring in future.

This report supports the Council's priority of: Building a better Council

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Recommendation to Committee:

That the Committee note the report

Reason for recommendation:

This Committee is responsible for exercising the Council's scrutiny and review function including overall responsibility for audit and governance frameworks. It is also responsible for the review and scrutiny of decisions made, or actions taken, in connection with the discharge of any of the Council's functions.

This report is intended to provide reassurance to the Committee that adequate controls and measures have been put in place to reduce the risk of fraud of the nature detailed in this report from occurring again.

Introduction and background

- 1 On 9 December 2019, financial irregularities were identified in the processing of council tax refunds.
- 2 The issue was identified when a next of kin raised a query relating to a refund due from a deceased's council tax account. On checking the account, it was identified that a refund of £1,214 had been processed on 2 August 2019 based on an apparent instruction from a solicitor. It was confirmed by the next of kin that solicitors had not been instructed. It was also noted that the bank account details linked to the account had been changed at the time that the refund was processed.
- 3 An interrogation of the council tax system (Academy) identified a further 26 council tax refund payments totalling more than £27,000 to the same bank account. All the refunds had been processed by the same employee.
- 4 On 10 December 2019 the employee was suspended pending a full investigation.
- 5 On 12 December 2019 the matter was reported to Surrey Police. On 9 January the Police executed a warrant of arrest and interviewed the employee under caution. During this interview the employee admitted theft and provided the Police with details of other bank accounts that would be of interest. The employee was released under investigation while the Police conducted further enquiries.
- 6 The employee was dismissed from the employment of the Council on 14 January 2020.

Investigation

- 7 On 9 December 2019 the Council's Internal Auditors – Southern Internal Audit Partnership ('SIAP'), were engaged to carry out an investigation into the financial irregularities.
- 8 On 17 February 2020 SIAP issued their report which found a total of 137 refunds totalling £148,077.64 being paid to five different bank accounts. Two of these refunds had subsequently been repaid making the total loss to the Council £147,342.08. The earliest irregular refund payment identified was made on 14 March 2016 and the latest was 6 December 2019.
- 9 The investigation identified several factors which had contributed to the employee being able to issue refunds to their own bank account. As a Revenue Case Officer, the employee had access to each stage of the council tax life cycle and was able to exploit this level of access to manipulate records, monitor interactions and respond to queries without

scrutiny or challenge. The officer concerned was also able to stop the dispatch of system generated credit notes.

- 10 The investigation found that generally (not exclusive to those refunds identified as fraudulent) refunds were not always supported by a full audit trail of supporting evidence to support the refund payment to the bank account used. Although in several instances there is what appears to be fabricated documentation in the system to support the payment to a bank account linked to the employee.
- 11 The investigation considered the possibility that other forms of customer accounts been subject to similar fraudulent activity including non-domestic rates, council tenant rent accounts and benefit recipients but did not find any evidence that this was the case.

Insurance

- 12 Our insurers were notified of the fraud on 7 January 2020 and full details of the Council's loss were provided to them in February 2020.
- 13 On 22 June 2020 confirmation was received that the insurance claim had been approved and the claim was settled for the full amount less £5,000 which was the excess. The Insurers also met the £16,000 costs arising from SIAP carrying out the investigation

Prosecution

- 14 A copy of the SIAP report with all the supporting evidence was made available to the Police. They also seized the employees work laptop and while executing the warrant of arrest seized other evidence including mobile phones and financial records.
- 15 In January 2021 the Police finally confirmed that the Crown Prosecution Service would be charging the employee with 'fraud by abuse of position'.
- 16 The employee pleaded guilty to the charge of fraud and on the 28 April 2021 was sentenced to 2-years imprisonment and £120 surcharge.

Internal Audit

- 17 An internal audit of council tax was completed in October 2020. The assurance opinion for the audit was 'adequate'.
- 18 Several management actions were identified to improve controls which have been implemented – see below.

Management Actions

- 19 The following controls have been introduced to the council tax refund process and the refund processes for non-domestic rates, council tenant rents and benefits, to address the weaknesses exploited by the employee allowing the fraud to be perpetuated:
 - a. Where refunds are requested to a bank account not previously validated, the customer is asked to provide documentary evidence of the account such as a bank statement or picture of the front of their debit card.
 - b. All refunds must be authorised by a senior officer such as Team Leader or Specialist
 - c. 100% management checks of refunds over £500
 - d. Minimum 10% sample management checks of all refunds
 - e. Monthly review of recurring BACS payments to the same bank account for the previous 12 months by a senior officer such as Team Leader or Specialist

- 20 The 135 council tax accounts affected have had the funds reinstated and efforts are in hand to trace the eligible recipients for reimbursement.

Other options considered

- 21 The authority is committed to the proper accountability of public funds and condemns fraud and corruption in public life. The scale and seriousness of this fraud meant that no other option but to report this matter to the police and conduct a formal investigation was considered.

Key implications

Comments of the Chief Finance Officer

- 22 While it is not possible to completely remove the risk of fraud it is possible to put systems and control in place that will deter and quickly detect any fraudulent activity. The Council has adopted the recommendations made by SIAP to strengthen the controls in place to minimise the risk of fraud and considers these to be appropriate. The new controls are all now in place and being followed

- 23 The insurance the Council had in place meant that all funds were recover, apart from the £5,000 excess. Efforts are now being made to make the correct refunds to the eligible recipients.

- 24 The Council maintains an Anti-Fraud Policy and Whistleblowing Policy along with anti money laundering guidelines that are available for all staff on the Council's intranet (The Hub).

Comments of the Head of Legal Services

- 25 The purpose of this report is twofold: firstly, to share information with Members about a case where internal control weakness have led to fraud and irregularities and secondly: to demonstrate what measures are in place to help prevent similar circumstances happening again. The latter should provide reassurance to the public of the Council as valuing good governance and pursuing those that would seek to fraudulently exploit its resources.
- 26 The Council now has an updated policy in place which sets out its approach to preventing, detecting and investigating fraud and corruption. Going forward, an assessment of fraud and risk will be reported twice a year to this Committee.

Equality

- 27 There are no equality implications associated with this report

Climate change

- 28 There are no significant environmental/sustainability implications associated with this report

Appendices

- 29 None

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