

Report of the Chief Audit and Control Officer

ANNUAL COUNTER FRAUD REPORT1. Purpose of Report

To provide the Committee with the Annual Counter Fraud Report for 2021/22.

2. Recommendation

The Committee is asked to NOTE the report.

3. Detail

As required by the Council's Fraud and Corruption Prevention Policy, the Annual Counter Fraud Report is presented to this Committee to provide a summary of the ongoing Counter Fraud work performed by Internal Audit and other relevant departments.

Internal Audit is pleased to report that no fraudulent activity within the Council has been noted during the financial year 2021/22. There have, however, been two instances of successful fraud attempts against the Council, one of which resulted in a minor financial loss. Details of these are provided within the confidential Appendix 2.

The primary report is presented within Appendix 1. Therein, to provide some context, the current fraud 'landscape' as viewed by the Chartered Institute of Public Finance and Accountancy (CIPFA) is presented, followed by a summary (by department) of the work undertaken in response to the fraud risks facing the Council, including the Council's engagement with the National Fraud Initiative (NFI). An action plan for the next 12-18 months concludes the report.

As noted above, the confidential Appendix 2 comprises a summary report regarding the two successful fraud attempts against the Council.

The Council's Fraud Risk Register is presented in Appendix 3. This provides a summary of the key significant fraud risk areas within the Council along with the processes and procedures in place to mitigate those risks.

4. Financial Implications

Fraud perpetrated against the Council has a direct impact on the cost of providing services to the local community. The positive counter fraud work undertaken across the Council to complement and improve key controls is therefore vital in mitigating against the risk of fraud. The review of key significant fraud risk areas as part of Fraud Risk Register is an important tool in this regard.

5. Legal Implications

The Council's Fraud and Corruption Policy ensures the Council meets its legal obligation and there are adequate safeguards and reporting arrangements in place to protect the Council from fraud.

6. Human Resources Implications

Not Applicable.

7. Union Comments

Not Applicable.

8. Data Protection Compliance Implications

There are no Data Protection issues in relation to this report.

9. Equality Impact Assessment

As there is no change to policy an Equality Impact Assessment is not required.

10. Background Papers

Nil.

APPENDIX 1

ANNUAL COUNTER FRAUD REPORT 2021/22

1. Introduction – National Context and Council Policy

The Chartered Institute of Public Finance and Accountancy (CIPFA) produces a periodic report on fraud within the UK public sector. In the latest report – the ‘Fraud and Corruption Tracker’ published in February 2021 – CIPFA estimates that fraud costs the public sector at least £40.3bn each year. Of this total, an estimated £7.3bn is specifically located within local government.

Other key findings within the report include:

- An estimated 47,000 frauds were detected or prevented across local authorities in 2019/20 with a total value of £239m (down from £253m). The average value of each fraud case detected or prevented increased from £3,600 to £5,090.
- Procurement and Council Tax Single Person Discount continued to be perceived as the two greatest fraud risk areas within local authorities. The main types of fraud by volume that affected district authorities remained council tax, housing and business rates with the highest number of identified instances of fraud relating to housing and council tax at an estimated total value of £122.4m £35.9m respectively.
- Other notable types of fraud (but which did not emerge as major types of fraud nationally) were insurance; welfare assistance; economic and voluntary sector support; payroll, recruitment, expenses and pension; bank mandate fraud and manipulation of data.

It is against this background that in response to the risks and threats presented to the Council by fraud, the Council has in place a Fraud and Corruption Prevention Policy, approved by this Committee in March 2017.

By way of this policy, the Council acknowledges the significant negative impact fraudulent and corrupt acts can have on the Council, the delivery of its Corporate Plan and the services provided to residents. The policy also makes clear that the Council takes a zero-tolerance approach to fraud and corruption; will take all necessary steps to prevent, detect and punish fraudulent and corrupt acts; and will take all appropriate action against perpetrator(s) and pursue all available options to recover any losses.

The policy establishes two key processes for the prevention of Fraud and Corruption within the Council. Firstly, the policy outlines (in tandem with the Council’s Whistleblowing Policy) a procedure for the reporting of suspected fraudulent and corrupt acts. Such reports are considered by senior management, with the potential for further investigation by Internal Audit, referral to specialist fraud investigation services and/or the Police. The results of one such investigation during 2021/22, noted above, are summarised in the confidential Appendix 2 to this report.

The second key process established by the Policy is an ongoing programme of preventative measures established by relevant departments across the Council, supported by ongoing assurance and advisory work performed by Internal Audit. The basis for this programme is the Fraud Risk Register (presented in Appendix 3) which is maintained by Internal Audit and periodically reviewed in conjunction with relevant Heads of Service and managers.

A summary of the key measures and activity in each relevant department now follows.

2. Summary of Key Measures and Activity

Revenues and Benefits

As part of the ordinary course of operations, documentary evidence for all claims for discounts, reliefs or benefits are required before any such discount, relief or benefit is awarded. Regular inspection work is also carried out.

The Council participates in the annual Single Person Discount data matching programme provided by the National Fraud Initiative. In addition, much of the current counter fraud activity within the Revenues and Benefits teams is in support of the Department for Work and Pensions (DWP). In 2021/22 this activity included:

- Issuing four fraud referrals to the DWP;
- Completing three Local Authority Information Exchange Forms (LAIEF), being requests for information from the DWP to support their ongoing investigations; and
- Undertaking one adjudication.

In addition, successful Housing Benefits cases in the year included an overpayment of Housing Benefit totalling £688 due to earnings.

Housing

Nationally, the risk of fraud relating to housing has been identified as high value. In a local context, the risks for this Council include the potential for tenancy fraud, sub-letting and risks associated with the 'Right to Buy'.

With regard to all these risk areas, documentary evidence for all claims or applications is sought prior the awarding of any tenancy or financial arrangement. In respect of 'Right to Buy' applications, appropriate checks are undertaken to prevent and detect potential fraud, including:

- Requesting identity and proof of address for each applicant.
- Checking if the applicant is in receipt of Housing Benefit and referring this on for enquiry (particularly where the sale is expected to be financed without a mortgage).

- Checking each applicant's details with appropriate agencies (including the National Anti-Fraud Network) to see if the applicant has other mortgages and to check the persons registered at the address from electoral records.
- Requiring applicants to provide details as to how they intend to finance the purchase. If monies are being gifted, the Council will require the applicant to provide confirmation from the third party that these funds are available and seek proof of identification.

Procurement

The Council has in place a formal Procurement and Commissioning Strategy which provides considerable detail into the processes and procedures required in order to complete procurement exercises, including formal tender exercises. Contract opportunities are well-advertised, with a commonly-used online tendering system utilised to help ensure transparency and fairness.

Payroll and Human Resources

All new employees and changes to employee details are subject to robust checking processes which involve, as required, documentary evidence and/or direct confirmation of details with the relevant employee. Areas such as probation, sickness absence, right-to-work and payroll data are similarly supported by established Council policy and documentary checks as required.

Finance Services

The Finance Services team engages with banks and other financial institutions to prevent fraudulent activity. This includes both treasury management activity and creditors payments. Barclays Bank has provided officers with fraud awareness briefing sessions and periodic email updates on developments and trends in fraudulent activity.

Environmental Health and Licensing

The Environmental Health team ensures that, where necessary, the identity and relevant details for applicants or premises owners are established and supported by documentary evidence. Reference is made to the National Anti-Fraud Network as required, in addition to cross-agency data sharing and checking.

In addition, the Licensing service continues to check right-to-work status for all new taxi and private hire drivers and for relevant alcohol licensing applications. These measures assist in preventing illegal working, unlawful employment of workers and unlawful payments to employees.

Insurance

The Council continues to work with its insurers who regularly provide briefings and advice to enable officers to remain vigilant to potential fraudulent claims. All claims continue to be rigorously reviewed at every stage to ensure that anything suspicious is identified and the appropriate outcome is achieved. Claimants are

advised that information provided may be shared by the insurers with other appropriate bodies responsible for the prevention and detection of fraud, such as the Claims and Underwriting Exchange Register.

Training and Awareness

As part of the mandatory training provided through the Council's online learning platform (Broxtowe Learning Zone), employees are required to complete modules on Cyber Security and the Code of Conduct in addition to a number of Information Management and Security modules. Other specific courses are available for relevant service areas, including modules on Payment Card Security and Serious Organised Crime.

Internal Audit provides periodic general fraud awareness updates to employees in addition to providing more targeted fraud information to relevant officers. As noted in the section 'plans for 2022/23', below, work towards the development of a Fraud and Corruption Prevention intranet page and the launch of two training courses, via Broxtowe Learning Zone, on Fraud Prevention and the Bribery Act 2010 has now commenced.

National Fraud Initiative

The Council participates in the Cabinet Office's National Fraud Initiative programme (NFI), which matches electronic data within and between the public and private sector to assist in the prevention and detection of fraud. These include local authorities, police authorities, local probation boards, fire and rescue authorities as well as a number of private sector bodies. The NFI tool is helpful in assisting to identify potential fraud in areas such as council tax, housing benefit, pensions, payroll and housing tenancy.

The Council periodically provides specified sets of data to the Cabinet Office for matching. The data provided can include records relating to council tax, creditors, payroll, electoral register, housing tenants, housing waiting lists, insurance claims and licences. Whilst Internal Audit is the single point of contact for participation in the NFI data matching programme, the process does require the support of the respective service managers with responsibilities for the service/system being subjected to review under the scheme. A network has been established to enable departments to support Internal Audit with this work.

The latest NFI data matching exercise has recently commenced with datasets shortly to be gathered from the relevant Council departments and submitted via the secure online portal. Once the data matching results are released by the Cabinet Office (anticipated in January 2023), Internal Audit will perform a risk analysis on the results and lead and co-ordinate the Council's response to those matches deemed higher risk.

Internal Audit – Special Investigations

Details of the fraud-related investigations carried out by Internal Audit may be found in the confidential Appendix 2 to this report.

In addition, Internal Audit also completed a review of the processes and procedures followed by the Council upon the discovery of a large amount of cash within the home of a deceased housing tenant. An Internal Audit Report was issued to management in August 2021, providing assurance over the security of cash handling, banking and considerations from a Money Laundering Prevention perspective.

3. Plans for 2022/23

The primary focus for the next 12-18 months is the reinforcement and development of the resources available to the Council with regard to the prevention and detection of fraud. Specific planned actions include:

- Development of a Fraud and Corruption Prevention intranet page, containing links to the relevant policy documents and signposting employees to the relevant reporting schemes (target date: March 2023).
- Launch of two training courses via the Council's e-learning platform (Broxtowe Learning Zone) on Fraud Prevention and the Bribery Act 2010 (target date: May 2023).
- A review of the Fraud and Corruption Prevention Policy and Money Laundering Prevention Policy, to be presented to this Committee for approval should this be required (target date: May 2023).

APPENDIX 3

FRAUD AND CORRUPTION RISK REGISTER – SEPTEMBER 2022

1. Introduction and Background

Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is widely recognised as a key component of a quality governance framework. One of the key principles of the Code is to identify the fraud and corruption risks within an organisation; understand the exposure to these risks and routinely consider these as part of risk management arrangements.

The preparation of the Council's Fraud and Corruption Risk Register, presented in this appendix, satisfies this key principle of the Code. The Fraud and Corruption Risk Register is maintained by Internal Audit and periodically reviewed in conjunction with relevant Heads of Service and other managers. The register is also considered by the General Management Team and will be continue to be presented to this Committee alongside the Annual Counter Fraud Report.

2. Fraud Risk Assessment Matrix

The corporate 5x5 risk matrix is used for assessing the threats for each fraud risk in terms of both the likelihood and impact. A score is provided for both the inherent risk and the assessed residual risk. This matrix reflects the direction of travel in terms of the effect of mitigation measures implemented to help manage a particular risk. It also assists in directing resources to areas where they will have the most influence.

		Risk – Threats				
Likelihood	Almost Certain - 5	5	10	15	20	25
	Likely – 4	4	8	12	16	20
	Possible - 3	3	6	9	12	15
	Unlikely - 2	2	4	6	8	10
	Rare – 1	1	2	3	4	5
		Insignificant – 1	Minor – 2	Moderate – 3	Major – 4	Catastrophic – 5
		Impact				

Risk Rating	Value	Action
Red Risk	25	Immediate action to prevent serious threat to provision and/or achievement of key services or duties
	15 to 20	Key risks which may potentially affect the provision of key services or duties
Amber Risk	12	Important risks which may potentially affect the provision of key services or duties
	8 to 10	Monitor as necessary being less important but still could have a serious effect on the provision of key services
	5 to 6	Monitor as necessary to ensure risk is properly managed
Green Risk	1 to 4	No strategic action necessary

In applying the matrix to the fraud and corruption risks posed to the Council, appropriate reference has been made to published guidance and reports from CIPFA, the National Fraud Initiative, Central Government, the external auditors and other relevant organisations. Existing knowledge of the Council’s operations derived from previous counter fraud and Internal Audit work has also been drawn upon as appropriate.

This risk register will serve as a ‘living document’ and evolve over time as the nature of the services provided by the Council and the environment within which it operates changes, giving rise to variations in the Council’s risk profile.

Fraud and Corruption Risk Register

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
Housing Tenancy (Applications)	Fraudulent applications for new or successive tenancies	Documentary evidential requirements Checking, review and authorisation procedures Data-matching exercises through NFI	12	6
Housing Tenancy (Subletting)	Sub-letting of Housing properties	Direct and indirect monitoring of tenanted properties Data-matching exercises through NFI	10	6
Right to Buy	Fraudulent Right-to-Buy applications	Documentary evidential requirements Checking, review and authorisation procedures Data-matching exercises through NFI	16	4
Benefits	Fraudulent applications for Housing Benefit	Documentary evidential requirements Checking, review and authorisation procedures Data-matching exercises through NFI Risk Based Verification of Claims	10	4
Disabled Facility Grants	Fraudulent applications for new or additional grants	Documentary evidential requirements Officer site visits Checking, review and authorisation procedures	12	3
Council Tax	Fraudulent applications for discounts and reliefs, including Single Occupier Discount and Local Council Tax Support	Documentary evidential requirements Checking, review and authorisation procedures Data-matching exercises through NFI	15	4

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
Business Rates (Discounts/Relief)	Fraudulent applications for discounts and reliefs including Small Business Rate Relief and Charitable Relief	Documentary evidential requirements Checking, review and authorisation procedures Property Inspector visiting properties	12	4
Business Rates (Properties)	Unlisted / Concealed Properties	Officer knowledge of borough development Data-matching exercises through NFI Working with third party company to identify gaps	6	4
Procurement (Contract Awards)	Improper award of contracts due to lack of tendering and/or collusion with or between potential suppliers	Procurement and Commissioning Strategy Procurement and Contracts Officer Internal monitoring of supplier spends Publication of Contracts Register Code of Conduct Register of interests, gifts and hospitality Contract Monitoring Training and Guidance	16	8
Procurement (Purchases)	Purchase of items for personal use or profit through resale	Authorisation controls through Civica Financials Purchasing and Creditors systems Monitoring of Purchase Card transactions Inventories Budget Monitoring Training and Guidance	12	4

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
Procurement (Payments)	Redirection of payments to third party bank accounts through fraudulent submission of changes in bank details	Restrictions on officer abilities to modify supplier bank details Checking, review and authorisation procedures Training and Guidance	16	9
Payroll (Bogus employees)	Creation of bogus ('ghost') employees	Documentary evidential requirements Checking, review and authorisation procedures Independent headcount reconciliation	9	3
Payroll (Overtime/Claims)	Fraudulent overtime or expenses claims	Documentary evidential requirements Checking, review and authorisation procedures	9	4
Human Resources (Applications)	False employment applications	Documentary evidential requirements Checking, review and authorisation procedures	12	4
Human Resources (Sickness)	False claims for sickness absence	Documentary evidential requirements Checking, review and authorisation procedures	12	4
Planning	Intentionally false or misleading information contained within planning applications	Documentary evidential requirements Officer site visits Checking, review and authorisation procedures	12	4
Grant Aid	Fraudulent grant applications for work or activities not carried out or by ineligible groups or individuals	Documentary evidential requirements Knowledge of local community groups and individuals	9	3

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
Money Laundering	Money Laundering, often in the form of significant cash overpayments then followed by an electronic or cheque refund	Anti-Money Laundering Policy and Procedures Reporting channels to Money Laundering Reporting Officer (MLRO) and Internal Audit Reviews of customer account credit balances Upper limit on receipt of cash transactions Training and Guidance	12	4
Internal Fraud and Corruption (Inducements)	Inappropriate favourable treatment of a supplier/customer/ applicant by a Council officer, often in exchange for financial reward.	Code of Conduct Disciplinary Procedure Whistleblowing Procedure Declarations of Interest Review/authorisation processes for decision making Training and Guidance	9	4
Internal Fraud and Corruption (Theft)	Theft of cash or other physical assets	Limited Petty Cash floats Bank Reconciliation Inventories Training and Guidance	9	4
Internal Fraud and Corruption (Payments)	Redirection of payments to personal bank accounts	Restrictions on officers modifying supplier bank details Checking, review and authorisation procedures Training and Guidance	9	3

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
Internal Fraud and Corruption (Improper Use)	Improper personal use of Council assets (such as vehicles and fuel)	Code of Conduct Tachographs Monitoring of fuel usage Vehicle Tracking (Masternaut) Training and Guidance	9	4
Licensing	Fraudulent applications for new or renewed licences	Documentary evidential requirements Checking, review and authorisation procedures Data-matching exercises through NFI	12	4
Insurance Fraud (Claims)	False, inflated or duplicate claims	Documentary evidential requirements Checking, review and authorisation procedures Internal and external (insurance company) monitoring of claims	12	4
Cybercrime (System Outage)	System outage, operational disruption, financial loss and / or reputational damage as a result of a targeted cyber attack	Firewalls and similar ICT security systems Disaster Recovery and Business Continuity Plans Frequent initial and refresher training for all staff	25	5
Cybercrime (Data Breach)	Loss of data and / or data breach as a result of targeted cyber attack	Firewalls and similar ICT security systems Disaster Recovery and Business Continuity Plans Frequent initial and refresher training for all staff	20	4
Cybercrime (Internal Theft)	Intentional theft of data by an employee	Code of Conduct Disciplinary Procedure Frequent initial and refresher training for all staff	12	6