

## Report of the Chief Audit and Control Officer

**ANNUAL COUNTER FRAUD REPORT 2018/19**1. Purpose of report

To provide the Committee with the annual report on counter fraud and corruption and money laundering prevention activity in 2018/19.

2. Detail

Fraud and corruption are a serious and ongoing threat to the financial health of the public sector. It is estimated that over £300 million each year is lost as a result of fraudulent acts both against and within public sector organisations. 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 Fraud and Corruption Prevention Policy was approved by this Committee in March 2017. The Policy Statement is that the Council takes a zero-tolerance approach to fraud and corruption. The Council is committed to establishing a strong anti-fraud and corruption culture and will take all necessary steps to prevent, detect and punish fraudulent and corrupt acts. The Policy also recognises that Internal Audit will take a more prominent role in leading and co-ordinating anti-fraud and corruption activities.

There are national and local processes in place to help the Council identify and tackle fraud. This is underpinned by the Fraud and Corruption Prevention Policy. In addition, the examination of the risk of fraud is integral to the Council's governance and risk management arrangements.

As part of the process, reports relating to fraud and corruption prevention activity are submitted to this Committee. Further details of activity for the forthcoming year are included in the appendix. The delivery of these actions will help to further strengthen the arrangements in place.

**Recommendation**

**The Committee is asked to NOTE the Annual Counter Fraud Report 2018/19.**

Background papers

Nil

## APPENDIX

## ANNUAL COUNTER FRAUD REPORT 2018/19

1. Introduction

Fraud and corruption are a serious and ongoing threat to the financial health of the UK public sector. The latest report from CIPFA (the Chartered Institute of Public Finance and Accountancy) estimates that over £300 million each year is lost as a result of fraudulent acts both against and within local authorities and other public sector organisations.

CIPFA published the results of its fourth annual Fraud and Corruption Tracker survey in October 2018. The survey focused on local government and shows how the sector is dealing with the fraud threat. The responses received provided a spread of results from across all regions, enabling it to estimate the total figures for fraud across English, Welsh and Scottish local authorities. The key findings were that:

- An estimated 80,000 frauds were detected or prevented across local authorities in 2017/18 with a total value of £302m (down from £334m)
- The number of fraud cases investigated or prevented increased in the year but the average value of each fraud fell by 20% to £3,600
- The number of serious and/or organised crime cases doubled to 56.
- Procurement, council tax single person discount and adult social care were perceived as the three greatest fraud risk areas
- The four main types of fraud by volume that affect local authorities are council tax, housing, blue badge fraud and business rates.
- The highest number of investigations related to council tax fraud (70%) with a value of £26.3m
- The highest value area of fraud is housing and tenancy fraud with an estimated total of £216m
- The largest growing area of fraud is business rates with the amount lost to business rates fraud increasing significantly from £4.3m to £10.4m.
- 51% of responding authorities had a dedicated counter fraud service.

2. Local Context

The Council acknowledges the significant negative impact fraudulent and corrupt acts can have on the delivery of services provided to residents.

The Policy Statement, as set out in the Fraud and Corruption Prevention Policy approved by this Committee in March 2017, is that the Council takes a zero-tolerance approach to fraud and corruption. The Council is committed to establishing a strong anti-fraud and corruption culture and will take all necessary steps to prevent, detect and punish fraudulent and corrupt acts.

Where a fraudulent or corrupt act is proven to have taken place, the Council will take all appropriate action against the perpetrator and pursue all available options to recover any losses.

3. Role of Internal Audit

Internal Audit traditionally plays a preventative role in trying to ensure that systems and procedures are in place to prevent and deter fraud and corruption. It may be requested to investigate cases of suspected financial irregularity, fraud or corruption, in accordance with agreed procedures. The authority of the Deputy Chief Executive and/or his authorised representative to access premises, documents, records and explanations, if required for the purposes of the Internal Audit, are supported within the Financial Regulations.

a. Risk Assessment

The Deputy Chief Executive (as the Section 151 Officer) is responsible for the ongoing assessment of the risk to the Council of financial or other loss resulting from fraud and corruption. Whilst the focus of the risk assessment will be the potential financial loss and/or disruption to services, other important areas such as reputational risk and impact on employee welfare will also be considered.

A fraud risk assessment is programmed for 2019/20. This will be completed by the Chief Audit and Control Officer in conjunction with senior management and will take into account published guidance and other information from Central Government, CIPFA, National Fraud Initiative and other relevant organisations.

b. Detection and Prevention

The fraud risk assessment will provide the basis for an ongoing detection and preventative audit work programme to be performed. Internal Audit will liaise with management to recommend changes in procedures to reduce risks and prevent losses to the Council.

c. Response

The role of Internal Audit extends to acting as a co-ordinating and investigating service for all non-benefit related fraud and corruption reports and to manage the Council's response to such reports. Benefit fraud alerts are referred to the Single Fraud Investigation Service (SFIS) of the Department for Work and Pensions (DWP).

4. Summary of Activity

a. Training and Awareness

Fraud prevention has to be underpinned by a strong anti-fraud culture that is driven by senior management. It requires active promotion to include officers, members, key stakeholders and the public.

This culture should seek to motivate employees and ensure that they understand the importance of tackling fraud; are able to recognise fraud; and know how to report any suspicions of fraud. The most effective anti-fraud culture changes people's attitudes and behaviours towards fraud, positively reinforcing their responsibility in preventing, detecting and reporting fraud and deterring would-be criminals from committing fraud in the first place.

Internal Audit has been positive in sharing general fraud awareness updates with employees, in addition to providing more targeted fraud information to relevant officers. Internal Audit is developing a fraud web-page for the intranet to complement information already provided on the Council's website.

The Council is also considering training opportunities for employees in terms of fraud awareness and money laundering, which could be developed as an e-Learning package on Broxtowe Learning Zone.

**b. National Fraud Initiative**

The Council participates in the Cabinet Office's National Fraud Initiative programme (NFI). The NFI matches electronic data within and between public and private sector bodies to assist in the prevention and detection of fraud. These bodies 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 local authorities to identify potential fraud in areas such as council tax, housing benefit, pensions, payroll and housing tenancy. Since its introduction in 1996, the NFI programme has helped identify £1.2 billion nationally in fraud or error.

The Council is required to provide particular sets of data to the Cabinet Office for matching. The data provided includes records such as 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 is being established to enable departments to support Internal Audit with this review work.

The most recent NFI exercise generated a total of 2,176 matches across the various data sets. These included 938 priority matches for further scrutiny (209 high risk and 729 medium risk). Investigation work is ongoing with the target of completing 100% of the recommended priority matches by October 2019.

A further exercise in February 2019 to check Council Tax Single Person Discounts (CTSPD) data against the Electoral Register generated further matches for scrutiny. These included 2,393 positive matches to the Electoral Register, 139 matches relating to 'rising 18's' and 4,244 matches to other NFI datasets.

The Head of Revenues, Benefits and Customer Services has agreed to utilise the reports provided by the NFI to check ongoing entitlement to CTSPD, in particular for high risk cases. Similarly, a review of the 'rising 18' cases identified will be completed and the appropriate resulting action taken.

During 2018 the Council was involved in an NFI pilot that matched Business Rates data together with existing NFI data such as premises and licensing data, within and between bodies to identify potential Business Rates fraud. A typical fraud risk is companies fraudulently claiming Small Business Rate Relief from multiple local authorities. Whilst there were high hopes that data matching for Business Rates will provide useful data for the Council and its neighbouring authorities, the findings from the pilot scheme were somewhat limited.

c. Internal Audit – Special Investigations

No major fraud investigations were undertaken by Internal Audit in 2018.

The meeting of Council on 19 December 2018 considered several governance issues arising from a sale of land at Redwood Crescent in Beeston. The report of the Interim Monitoring Officer considered issues arising under the legal framework governing the Council's power to dispose of land (section 123 of the Local Government Act 1972); issues arising under the legal framework for Assets of Community Value; and issues arising under the law, guidance and local constitutional provisions concerning Freedom of Information Act requests. Although no fraud was identified, a number of recommendations were proposed to improve the governance in this area and reduce the risk of fraud and irregularity. A copy of the report, minutes and resolutions are available at <https://democracy.broxtowe.gov.uk/mgAi.aspx?ID=1152>

d. Revenues and Benefits

Much of the current fraud activity within the Revenues and Benefits teams is in supporting the DWP. In 2018 this activity included:

- Issuing 24 fraud referrals to the DWP
- Completing 54 Local Authority Information Exchange Forms (LAIEF), being requests for information from the DWP to support their ongoing investigations
- Undertaking seven adjudications, including one case of 'living together as husband and wife' (LTAHW).

A sample of successful Housing Benefits cases in the year included:

- An overpayment of Housing Benefit totalling £14,993 relating to LTAHW where recovery action is ongoing.

There have been no further specific programmes relating to discounts, exemptions and reliefs awarded for Council Tax and Business Rates, although the regular Revenue inspection activity is ongoing.

e. Housing

Nationally, the risk of fraud relating to housing has been identified as high value. Locally, the risks for this Council include the potential for tenancy fraud and risks associated with the 'Right to Buy'.

In respect of 'Right to Buy' applications, appropriate checks are undertaken to prevent and detect potential fraud:

- Requesting identity and proof of address for each applicant
- Checking if the applicant is in receipt of Housing Benefit and referring this on for further enquiry (particularly where the sale is expected to be financed without a mortgage)
- Checking each applicant's details with appropriate agencies (including NAFN, the National Anti-Fraud Network) to see if the applicant has another mortgage elsewhere 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.

The recent audits of Housing Tenancy Management and Right-to-Buy included a review of the procedures in place to prevent and detect fraud. Internal Audit considered that controls within the respective systems provided substantial assurance that risks are adequately managed.

f. Licensing

Following the advent of the Immigration Act 2016, the Licensing team now conducts right-to-work checks to prevent illegal working in the private hire and taxi sector. A similar provision has been made for checks to be carried out in the wider licensing regime.

These measures assist in preventing illegal working, unlawful employment of workers and unlawful payments to employees.

The Council was successful in detecting a taxi driver who had been working illegally in the country for a number of years. The matter was referred to the Immigration Authority through the checking process and the offender is no longer licensed by the Council.

The audit of Licensing in 2018/19 considered the procedures in place to prevent and detect fraud. Internal Audit considered that controls within the respective systems provided substantial assurance that risks are adequately managed.

g. 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 the 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 and the Theft Register.

5. Plans for 2019/20

The focus of activity will remain on prevention and deterrence as Internal Audit looks to develop the Counter Fraud Hub. The following actions are planned:

- Review the Fraud and Corruption Prevention Policy and the Money Laundering Prevention Policy was updated to ensure that they remain fit for purpose and are in line with current legislation and best practice (Target completion – March 2020).
- Complete a Fraud Risk Assessment exercise, in conjunction with General Management Team, taking into account published guidance from central government, CIPFA, NFI or similar and other relevant organisations (Target – October 2019).
- An outcome of this process will be to develop a fraud risk register to identify fraud risks (Target – November 2019).
- Management will continue to work with Internal Audit to review and improve the systems and key controls in areas where fraud risk is assessed as high or medium.
- Continue to raise awareness amongst employees, members and key stakeholders about the risk of fraud in all areas of the Council's operations. This will include:
  - Development of the webpages for the intranet and internet
  - Regular circulation of fraud awareness emails
  - Consideration of introducing a counter fraud e-Learning package.
- Complete the priority NFI data matching work from 2018/19 and follow-up on the actions undertaken in respect of the Council Tax Single Person Discount exercise (Target – December 2019).
- Keep informed of national developments in counter fraud so that the Council can continue to respond positively to new ideas, initiatives and examples of best practice.