

## Report of the Chief Audit and Control Officer

**ANNUAL COUNTER FRAUD REPORT**1. Purpose of report

To provide the Committee with the annual report on counter fraud and corruption and money laundering prevention activity in 2019/20.

2. Detail

Fraud and corruption are a serious and ongoing threat to the financial health of the public sector. It is estimated that over £40bn each year is lost as a result of fraudulent acts both against and within public sector organisations, of which £7.8bn is specifically in local government. 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 appendix 1. The delivery of these actions will help to further strengthen the arrangements in place.

Internal Audit has completed a fraud risk assessment exercise, in conjunction with senior management, taking into account published guidance and reports from CIPFA; National Fraud Initiative (NFI), Government; external auditors and other relevant organisations. An outcome of this process is the production of a Fraud and Corruption Risk Register, which is included in appendix 2

**Recommendation**

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

Background papers

Nil

## APPENDIX

## ANNUAL COUNTER FRAUD REPORT 2019/20

1. Introduction

Fraud and corruption are a serious and ongoing threat to the financial health of the UK public sector. The latest report from the Chartered Institute of Public Finance and Accountancy (CIPFA) estimates that fraud costs the public sector at least £40.3bn each year of which £7.8bn is specifically in local government.

CIPFA published the results of its fifth annual Fraud and Corruption Tracker survey from May 2019. This 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 71,000 frauds were detected or prevented across local authorities in 2018/19 with a total value of £253m (down from £302m).
- The number of fraud cases investigated or prevented decreased in the year although the average value of each fraud remained at £3,600.
- The number of serious and/or organised crime cases decreased to 24.
- Procurement, council tax single person discount and adult social care are still perceived as the three greatest fraud risk areas
- The four main types of fraud by volume that affect local authorities remain council tax, housing, blue badge fraud and business rates.
- The highest number of investigations related to council tax fraud (78%) with a value of £30.6m
- The highest value area of fraud is housing and tenancy fraud, including right-to-buy, illegal sub-letting and other tenancy frauds including succession and false applications.
- Business Rates fraud represents 2% of the total estimated number of fraud cases detected or prevented. This represents a marginal increase from the previous year and is reported it as the third highest fraud risk area for district councils.
- 40% of responding local authorities had a dedicated counter fraud service, with 24% of other responders referring to the counter fraud work completed by their Internal Audit teams.

- Other notable types of fraud (but which did not emerge as major types of fraud nationally) include insurance; welfare assistance; economic and voluntary sector support; payroll, recruitment, expenses and pension; and mandate fraud and manipulation of data.

## 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 his authorised representatives 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 are also considered.

A fraud risk assessment was completed by the Chief Audit and Control Officer, in conjunction with senior management, that has taken into account published guidance and relevant information from Central Government, CIPFA, the National Fraud Initiative and other relevant organisations.

The resulting Fraud Risk Register is provided at appendix 2.

### b. Detection and Prevention

The fraud risk assessment provides 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 of the Department for Work and Pensions.

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 in terms of fraud awareness and money laundering, which could be developed as an e-Learning package for employees on Broxtowe Learning Zone.

b. National Fraud Initiative (NFI)

The Council regularly 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 £1.2bn nationally in fraud or error.

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 most recent NFI exercises generated over 2,500 matches across the various data sets. These included 947 priority matches for further scrutiny (216 high risk and 731 medium risk). Investigation work is ongoing with the target of completing 100% of the recommended priority matches by December 2020.

In February 2020 the Council was part of a countywide initiative to engage with the NFI Premium Service for reviewing Council Tax Single Person Discounts (CTSPD). In addition to checking Council Tax records against the Electoral Register, the premium service also compared records against credit reference data to generate further matches for scrutiny.

The exercise identified 755 priority positive matches for further scrutiny (66 high risk and 689 medium risk). These included claimants suspected of having undisclosed occupants in the household; claimants with 'rising 18's'; and others with other occupants matching deceased data.

Immediately before the pandemic lockdown, the Revenues team had reviewed all the high risk cases, of which 48 have been processed. This resulted in eight changes which will see £4,454 additional Council Tax being collected this year. Unfortunately, further work (in pursuing cases unreturned and reviewing medium risk cases) had to be put on hold as a result of Covid-19 so this work has not yet been as successful as anticipated. This will be revisited in due course.

c. Internal Audit – Special Investigations

No major fraud investigations were undertaken by Internal Audit in 2019/20.

d. Revenues and Benefits

In addition to the programmes relating to discounts awarded for Council Tax utilising the NFI Premium Service, much of the current fraud activity within the Revenues and Benefits teams is in support of the DWP. In 2019 this activity included:

- Issuing 6 fraud referrals to the DWP
- Completing 43 Local Authority Information Exchange Forms (LAIEF), being requests for information from the DWP to support their ongoing investigations
- Undertaking two adjudications.

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

- An overpayment of Housing Benefit totalling £197 relating to working.

It should be noted that there are currently 20 LAIEFs still awaiting outcomes from the DWP and one further claim to adjudicate.

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

e. Emergency Covid-19 Business Grants Schemes

A key piece of counter fraud work undertaken by Internal Audit was in respect of the various emergency Covid-19 Business Grants schemes.

Predictably, the UK has seen a surge in fraudulent activity during the coronavirus pandemic, especially cyber-crime. The first Covid-19 case in the UK was reported on 31 January 2020 and the first Covid-19 fraud case was recorded just nine days later. It is a sad reality that fraudsters appear the instant that an opportunity presents itself ready to exploit the crisis.

The Chief Audit and Control Officer supported the Head of Revenues, Benefits and Customer Services in setting-up processes for flagging potential fraud and irregularities with business grant applications. Internal Audit was also active in supporting the grants process with quality assurance and fraud checking.

One attempted fraudulent application was intercepted after the Council receiving warnings from the regional Midlands Audit Group about fraudsters utilising the details of seemingly legitimate businesses but with reference to empty premises in the local area or recently established premises leases with limited paperwork. The relevant authorities have been informed of this attempted fraud.

The Council will now undertake further post-scheme fraud checking utilising the NFI functionality, which will include cross-checking of bank account details.

f. Finance

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, including a session relating to the payment of the emergency Covid-19 business grants.

g. 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, sub-letting and risk associated with the 'Right to Buy'.

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.

h. Licensing

The Licencing service continues to check right-to-work status for all new taxi/private hire drivers and for relevant alcohol licensing applications.

Following the advent of the Immigration Act 2016, these measures assist in preventing illegal working, unlawful employment of workers and unlawful payments to employees.

i. 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 2020/21

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 2021).
- Periodically revisit the Fraud Risk Assessment exercise (in conjunction with senior management and taking into account published guidance from central government, CIPFA, NFI and other relevant organisations) and update the Fraud Risk Register accordingly (Target – January 2021).

- 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, key stakeholders and local community about the risk of fraud in all areas of the Council's operations, to include:
  - Development of webpages for the intranet and internet
  - Regular circulation of fraud awareness emails
  - Introduction of a counter fraud e-Learning package.
- Complete further post-scheme fraud checking of the Emergency Covid-19 Business Grants and Discretionary Grant schemes utilising the NFI functionality (Target – December 2020).
- Undertake the latest NFI exercise; complete the priority NFI data matching work; and follow-up on the actions undertaken in respect of the Council Tax Single Person Discount exercise (Target – December 2020).
- 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.



**APPENDIX 2****FRAUD AND CORRUPTION RISK REGISTER – AUGUST 2020**Introduction and Background

Internal Audit has undertaken a fraud risk assessment with a view to establishing a Fraud and Corruption Risk Register.

The risk assessment has been informed by national data on fraud risks and local knowledge to establish and categorise a suite of potential fraud risks. The ongoing review with key officers will better determine the extent to which potential fraud risk could actually occur within the compass of their operations. It is expected that such risks will be periodically reviewed and considered, along with other areas identified as being vulnerable to the risk of fraud, as part of ongoing Internal Audit and risk management work.

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 the organisation; understand the exposure to these risks and routinely consider these as part of risk management arrangements.

The preparation of the fraud risk assessment, as presented in the appendix, satisfies this key principle of the Code. The Fraud and Corruption Risk Register has been considered by General Management Team (GMT) and will be published in the Annual Counter Fraud Report to this Committee.

The production of a Fraud and Corruption Risk Register should facilitate consideration and action to address specific fraud risks throughout the Council. It is recognised that the Council has developed an anti-fraud culture and some of the risks noted present low levels of risk due to the established control framework or other mitigating measures. Nevertheless, it is important to periodically review these and consider if any further actions are needed. The risks identified present a mix of corporate/cross-cutting and service specific risks. The register will be a live document intended to support managers in considering and reducing the exposure to these risks in their service areas.

Fraud Risk 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				
<b>Likelihood</b>	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
		<b>Impact</b>				

Risk Rating	Value	Action
<b>Red Risk</b>	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
<b>Amber Risk</b>	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
<b>Green Risk</b>	1 to 4	No strategic action necessary

In applying the matrix to the fraud and corruption risks posed, reference has been made to published guidance and reports from CIPFA, the National Fraud Initiative (NFI), the Government, the external auditors and other relevant organisations and inspectorates. 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
Emergency Covid-19 Support Grants	Fraudulent applications for grants resulting in inappropriate distribution of grant monies	Formal application process Evidential requirements Established checking and review processes	20	6
Procurement and Commissioning (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	16	8
Procurement and Commissioning (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	12	4

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
Procurement and Commissioning (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	16	4
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
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	12	4

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
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	9	4
Internal Fraud and Corruption (Theft)	Theft of cash or other physical assets	Limited Petty Cash floats Bank Reconciliation Inventories	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	9	3
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)	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

Risk Area	Risk	Mitigation	Inherent Score	Residual Score
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	<b>25</b>	<b>5</b>
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	<b>20</b>	<b>4</b>
Cybercrime (Internal Theft)	Intentional theft of data by an employee	Code of Conduct Disciplinary Procedure Frequent initial and refresher training for all staff	<b>12</b>	<b>6</b>