

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Joint Audit and Standards Committee	REPORT NUMBER: JAC/20/13
FROM: John Snell – Corporate Manager – Internal Audit	DATE OF MEETING: 29 March 2021
OFFICER: John Snell – Corporate Manager – Internal Audit and Data Protection	KEY DECISION REF NO. N/A

MANAGING THE RISK OF FRAUD AND CORRUPTION ANNUAL REPORT 2020/2021

1. PURPOSE OF REPORT

- 1.1 This report explains the current arrangements in place across both Councils to ensure there is a pro-active corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.
- 1.2 Internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within an organisation. This is part of its normal role of supporting Management and the Joint Audit and Standards Committee oversight of risk management. However, it is not the job of internal audit directly to detect or prevent corrupt practices - this is the responsibility of management. Internal audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems and advising on change where it is needed.

2. RECOMMENDATIONS

- 2.1 That the contents of this report detailing the progress made in ensuring there are effective arrangements and measures in place across both Councils to minimise the risk of fraud and corruption be noted.

REASON FOR DECISION

Anti-fraud and corruption work form an important part of the Councils' corporate governance and internal control framework arrangements.

3. KEY INFORMATION

- 3.1 This report shows those responsible for governance how both Councils are looking to fight fraud and corruption more effectively. It brings together in one document a summary of the outcomes of our work to deter, prevent and detect fraud and corruption over the last 12 months.
- 3.2 Although both Councils have traditionally encountered low levels of fraud and corruption, the risk of such losses both internally and externally is fully recognised as part of each Council's operations that need to be managed proactively and effectively.

Levels of officer responsibility

- 3.3 The Corporate Manager – Internal Audit and Data Protection is responsible for the development and maintenance of a Prevention of Financial Crime Policy and ensuring that Councillors and staff are aware of its content; and ensuring that there is a pro-active approach to fraud prevention, detection and investigation and promotes a council wide anti-fraud culture across both Councils.
- 3.4 Internal Audit will support management by advising on controls to prevent and detect fraud and help build anti-fraud awareness amongst staff. However, ownership of fraud lies in the directorates, and not Internal Audit.

Internal Audit

- 3.5 Fraud and corruption risks are identified as part of the annual planning process and contributes to the overall formation of audit coverage. Under the Public Sector Internal Audit Standards (PSIAS) we consider aspects of fraud risk in planning all audits.
- 3.6 Whilst it is not a primary role of an internal audit function to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud, and where necessary investigating the causes of fraud and responding to whistleblowing allegations.
- 3.7 The annual Audit Plan has an allowance for Internal Audit to undertake irregularity investigations, National Fraud Initiative (NFI) related work, and proactive anti-fraud and corruption work. This is at a level deemed proportionate to the identified risk of fraud within the Councils and is supported by senior management.

Fraud Risk Register

- 3.8 Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively.

Internal Audit has produced a Fraud Risk Register, which contains a list of areas where Internal Audit and Corporate Managers believe the Councils are susceptible to fraud. The register enables the Councils to focus on suitable internal controls to mitigate any subsequent risk. The register also influences the audit planning process.

CIPFA 'fraud and corruption tracker' summary report 2020

- 3.9 The summary report aims to provide a current national picture of public sector fraud and corruption for local authorities and to help identify counter fraud measures.

For local authorities in the UK, CIPFA has estimated that the total value of fraud identified and prevented in 2019/20 is approximately £239.4m. The report shows that council tax continued to be the largest area of identified fraud for councils, with more than 30,600 cases totalling £35.9m in 2019/20.

The two highest perceived fraud risk areas for 2019/20 are again procurement and council tax Single Person Discount.

In 2019/20 – prior to the COVID-19 grant disbursement – grant fraud represented just 0.3% of the total identified instances of fraud in the UK's local government sector. Valued at an estimated loss of £36.6m, the report reveals only 161 instances of grant fraud occurred in 2019/20. See paragraph 3.29 for Business Grant fraud prevention measures.

Policies and Procedures

3.10 The Councils are committed to ensuring that the opportunity for fraud and corruption is minimised, which is supported by the Prevention of Financial Crime Policy.

Pro-active Anti-Fraud Work

Raising awareness

3.11 Work continues on raising fraud awareness across both Councils and includes:

- Alerting staff of National Fraud Bulletins and ensuring that related internal controls are present and operating effectively.
- Subscription to the National Anti-Fraud Network, which provides proactive intelligence of potential fraud and error risks.
- The Councils, through the Shared Revenues Partnership, continue to give out a strong message about fraud in both publicly issued and internal documents regarding Council Tax and Housing Benefit claim forms.
- Fair Processing Notices, which inform the public that we will use their data for the prevention and detection of crime, have been updated as part of the General Data Protection Regulations (GDPR).
- Attending the Organised Fraud and Intelligence Group (OFIG) webinar in February 2021 to alert the Councils to fraud trends nationally and attending CIPFA 'Internal Fraud' webinars in March 2021 to explore and further strengthen internal controls to mitigate fraud.
- Both Councils are committed to being open and transparent. The Communities and Local Authorities (CLG) Code of Recommended Practice for Local Authorities on Data Transparency has set out data publishing requirements on Local Authorities. This includes publishing information on each Council's counter fraud work.

Suffolk Counter Fraud Group

3.12 To help fight fraud and corruption locally each Council across Suffolk have nominated a representative to sit on the Suffolk Counter Fraud Group and meet regularly.

3.13 The objectives of the group are:

- Keep up to date with national developments in relation to fraud, e.g. Strategies, Counter Fraud Profession, what other Local Authorities are doing;
- Identify and share emerging national and local fraud risks;
- Explore possibility of sharing and matching data held by Local Authorities to identify possible fraud or error;
- Explore possibility of joint working and sharing resources for proactive exercises utilising limited resources across Suffolk Local Authorities;
- Share material/resources/ideas of promoting fraud awareness amongst staff and Councillors;
- Joint training of staff where appropriate and beneficial;
- Share best practice in relation to working arrangements, investigations and case management; and
- Investigate cases jointly where appropriate.

Councils leading the way in fraud prevention

3.14 The Councils' Shared Revenues Partnership team has been recognised by the Department for Working Pensions (DWP) for their work to reduce fraud and error in Housing Benefit payments.

3.15 In processing 'Verify Earnings and Pensions' (VEP) alerts, the partnership authorities are amongst the top performing in the country, with performance rates of 99.5% for Babergh and 100% for Mid Suffolk in 2019/20. See also paragraph 3.19.

Fraud update from the Shared Revenues Partnership (SRP)

3.16 The SRP apply a Risk Based Verification (RBV) approach to Housing Benefit claims. RBV assigns a risk rating to each claim which determines the level of verification required. It allows more intense verification activity to be targeted at those claims which are deemed to be at highest risk of involving fraud and/or error.

3.17 Every new benefit claim is cross referenced via a central database to ensure that the customer is not claiming benefit anywhere else or is a household member in anyone else's claim, it cross references National Insurance Numbers to ensure that it is not being used by another person, checks the electoral role and if deemed to be a high risk will carry out a credit reference agency check so that the Benefit Assessor can decide if a claim is ready to be processed or make a referral for potential fraud.

3.18 The SRP secured funding from Suffolk County Council to carry out a monthly review of single resident discount during 2020/21. Although work continues on

the monthly review, the current number of discounts removed and the value of debt created since April 2020 is shown below:

	Number Removed	Value for 2020/21
Babergh	147	£34,032
Mid Suffolk	143	£34,034

- 3.19 In conjunction with the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) the SRP use the Verify Earnings and Pensions (VEP) service to ensure data in respect of Housing Benefit claimants is up to date. Between February 2020 and January 2021 using the data received via VEP alerts SRP have identified £19,357.67 worth of overpayments for Babergh (127 cases) and £7,221.44 worth of overpayments for Mid Suffolk (79 cases). These cases are classified as 'claimant error' for which the councils receive 40% subsidy back from Central Government. The Councils are also entitled to recover the overpayment of benefit through clawback from existing claimants or through invoice payment arrangements where they are no longer claiming.

National Fraud Initiative (NFI)

- 3.20 The NFI is an exercise that matches electronic data held within, and between public and private sector bodies to prevent and detect fraud. All mandatory participants, including Councils, must provide data for matching with other organisations.
- 3.21 The NFI exercise takes place every two years, with the latest main data extraction being completed in October 2020, as part of the 2019/20 exercise. The Election and Single Discount Council tax data upload was completed in December 2020.
- 3.22 Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across service areas to support staff in providing data and subsequently investigating and recording the results of matches. Resource levels do not allow all NFI matches to be investigated and an assessment of those that appear to be of a higher risk for examination must be carried out.
- 3.23 Matches are due to be released shortly. Tenancy and Payroll matches were released early in February 2021 although have not yet been reviewed due to the COVID-19 Emergency and management's directive to reprioritise work during the last quarter 2020/21. Only High-Risk matches will be reviewed initially. Note: High Risk is defined as having a strong for match that identifies an individual, e.g. same Date of Birth and National Insurance number.
- 3.24 Business grants data has been added to this year's upload to NFI to assist in the detection of fraudulent applications. All matches are due in Quarter 1, 2021/22. In order to support the detection of fraud even further, NFI is proposing a consultation, ending in March 2021, on providing them with additional powers in terms of obtaining and analysing data within the private

and public sector. The fees are envisaged by NFI not to cause a barrier to local authorities. If this proposal is accepted, it will become a mandatory exercise.

Housing tenancy fraud investigations

3.25 Since April 2020 Housing Officers have investigated 8 cases suspected of housing related fraud (3 in Babergh and 5 in Mid Suffolk). These have come about as the result of complaints, intelligence gathered by Housing Officers, or following other work undertaken by the Tenant Services team (e.g. welfare checks, empty or unkept properties).

3.26 The results are summarised below:

Fraud Type	Results of Investigation	2018/19		2019/20		2020/21	
		Babergh No. of cases	Mid Suffolk No. of cases	Babergh No. of cases	Mid Suffolk No. of cases	Babergh No of cases	Mid Suffolk No of cases
Abandonment	Resolved informally/not founded	5	1	3	5	3	4
	Notice to Quit served – tenant	1	0	0	0	0	0
	Notice to Quit – Property recovered	0	1	0	0	0	0
	Open case subject to ongoing investigations	1	0	2	0	0	1
Totals		7	2	5	5	3	5
Not using property as only or principal home	Resolved informally/not founded	3	2	1	0	0	0
	Serving of Notice to Quit and possession of property	-	-	1	0	0	0
	Open case subject to ongoing investigations	2	1	2	0	0	0
Total		5	3	4	0	0	0
	Property recovered following Notice to Quit	0	1	0	1	0	0
	Tenancy ended following Notice to Quit served	0	1	0	0	0	0

Fraud Type	Results of Investigation	2018/19		2019/20		2020/21	
		Babergh No. of cases	Mid Suffolk No. of cases	Babergh No. of cases	Mid Suffolk No. of cases	Babergh No. of cases	Mid Suffolk No. of cases
Illegal occupation	from the tenant. Further Notice to Quit on illegal occupier left in the property						
	Not founded – case closed	0	0	0	1	0	0
Total		0	2	0	2	0	0
Grand Totals		12	7	9	7	3	5

Right to Buy (RTB)

3.27 RTB statistics for BMSDC 2018 to 2021

	2018/19		2019/20		2020/21 (up to 18 th February 2021)	
	Babergh	Mid Suffolk	Babergh	Mid Suffolk	Babergh	Mid Suffolk
Number of applications received	34	34	38	26	33	32
Number of applications approved	22	17	21	21	20	11
Number of applications withdrawn/refused *	12	17	17	5	13	21

* Reasons for applications being withdrawn/refused include:

Reason for withdrawal/denied	2018/19		2019/20		2020/21 (up to 18 th February 2021)	
	Babergh	Mid Suffolk	Babergh	Mid Suffolk	Babergh	Mid Suffolk
Arrangement with Creditors	-	1	3	2	1	-
Property suitable for elderly people	-	1	1	-	-	2
Notice to Seek Possession	-	-	1	-	-	-
Debt Relief Order in place	-	1	-	-	-	-
No response to the Offer Notice	2	2	2	1	3	4

Reason for withdrawal/denied	2018/19		2019/20		2020/21 (up to 18 th February 2021)	
	Babergh	Mid Suffolk	Babergh	Mid Suffolk	Babergh	Mid Suffolk
Withdrawn after Offer Notice sent	1	4	4	1	3	6
Reason unknown	-	1	-	-	-	2
Change in circumstances	1	1	1	-	1	5
Did not arrange 'due diligence' meeting	6	3	4	1	3	-
Health problems	1	-	-	-	1	-
Tenant delayed the process	1	-	-	-	1	-
Property in need of repairs	-	2	-	-	-	-
Tenant passed away	-	1	-	-	-	-
Applicant not eligible	-	-	1	-	-	2
Total	12	17	17	5	13	21

Coronavirus implications

- 3.28 Fraudsters are exploiting the spread of coronavirus (COVID-19) in order to carry out fraud and cybercrime. We have issued alerts to our residents to help minimise the risk of becoming a victim of such frauds and cybercrime.
- 3.29 In response to COVID-19, the Government is providing funding through Local Authorities, who are responsible for business rates billing, to support businesses. A member of the Internal Audit team is supporting the Business Cell to provide a level of assurance that funds are only paid to eligible businesses and ensuring that appropriate action is taken to recover any funds that have been paid out fraudulently or in error. The auditor will continue to focus on the end-to-end process of the business grant funding from receipt of application to issue of payment and any post-event assurance undertaken. This work will continue while the grants are available.
- 3.30 To date only one fraudulent grant application has been paid in error in Babergh District Council. Officers sought immediate legal advice from Shared Legal Services and after some investigation, it was decided to report the fraud to Action Fraud and the National Anti-Fraud Network (NAFN). Through networking with other local authorities it was identified that another Council had received the same fraudulent application. No other frauds have been identified, however the recent NFI data matching exercise may identify organised national fraudulent activities.

Conclusions

3.31 The Councils remain committed to providing services carried out in accordance with the highest ethical standards and takes steps to investigate all concerns arising.

Looking ahead/Future developments

3.32 Some areas where a focus can be expected for 2021/22 follows:

- Continue ongoing NFI exercise;
- Ongoing COVID-19 support work around business grants;
- Supporting both Councils to improve levels of awareness of fraud risks amongst staff; and
- Continue working with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures through the newly formed Suffolk Fraud Group.

4. LINKS TO JOINT CORPORATE PLAN

4.1 Work undertaken to reduce fraud and enhance the Councils' anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

5. FINANCIAL IMPLICATIONS

5.1 Whilst there are no direct implications arising from this report there are potential resource implications concerning anti-fraud and corruption issues. Any implications arising from the need to introduce additional controls and mitigations will be addressed with management. The emphasis always will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

6. LEGAL IMPLICATIONS

6.1 There are no legal implications arising from these proposals.

7. RISK MANAGEMENT

7.1 This report is most closely linked with the Council's Significant Business Risk No. 14 – The Council may be perceived to be untrustworthy and have a poor reputation. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If robust anti-fraud and corruption arrangements are not in place this could affect the achievement of the Councils' strategic aims and priorities, key projects, the	Unlikely (2)	Bad (3)	The risk of fraud and corruption in relation to each Councils' activities is taken into consideration both as part of each Councils' approach to risk management and also in the development of the annual Internal Audit Plan. In practice, each Councils' mitigating controls include clear policies and procedures available to

<p>delivery of services and its reputation.</p>			<p>all staff and Councillors; Internal Audit who investigate potential areas of fraud and corruption; the bi-annual participation in the National Fraud Initiative; and a sound internal control environment – as demonstrated by internal and external audit opinions and the Annual Governance Statement.</p> <p>The production of an annual report helps mitigate its reputational risk by providing assurance to stakeholders on how the risks are managed.</p>
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8. CONSULTATIONS

8.1 During preparation this report has been shared with both Chairs of the Joint Audit and Standards Committee; Cabinet Lead Members for Customers, Digital Transformation and Improvement; the Section 151 Officer; the Assistant Director, Law and Governance and Monitoring Officer; and Legal. Any comments received have been incorporated in the report.

9. EQUALITY ANALYSIS

9.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

10. ENVIRONMENTAL IMPLICATIONS

10.1 There are no environmental implications arising from this report.