

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Joint Audit and Standards Committee	REPORT NUMBER: JAC/21/20
FROM: John Snell – Corporate Manager – Internal Audit and Risk Management	DATE OF MEETING: 28 March 2022
OFFICER: John Snell – Corporate Manager – Internal Audit and Risk Management	KEY DECISION REF NO. N/A

MANAGING THE RISK OF FRAUD AND CORRUPTION ANNUAL REPORT 2021/2022

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 Risk Management 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.

Policies and Procedures

- 3.9 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

- 3.10 Work continues on raising fraud awareness across both Councils and includes:
- Alerting staff of National Fraud Bulletins, where relevant, to ensure 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 2022 to alert the Councils to fraud trends nationally and attending CIPFA 'Internal Fraud' webinars in January 2022 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

- 3.11 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.
- 3.12 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

- 3.13 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.
- 3.14 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 2021 and January 2022 using the data received via VEP alerts SRP have identified £13,587.32 worth of overpayments for Babergh (84 cases) and £9,194.61 worth of overpayments for Mid Suffolk (78 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.

Fraud update from the Shared Revenues Partnership (SRP)

- 3.15 From September 2021 SRP ceased to undertake Risk Based Verification. Due to the increase in data available to minimise fraud and error, SRP moved to a Localised Verification Framework (LVF).

The LVF has utilised expertise from within SRP to develop an evidence framework that works in conjunction with our e-form to adjust evidence requests in real time. This approach reduces the need for customers to gather evidence already available to SRP and minimises staff time spent waiting for and processing unnecessary documentation.

Customers will be informed of the evidence requirement at the point they submit their claim online and will be asked to upload any documents required. Officer's will be able to see what evidence has been requested and will receive a checklist of information which can be checked against Government data sharing portals to verify the details provided by the applicant.

- 3.16 The SRP secured funding from Suffolk County Council to carry out a monthly review of single resident discount during 2021/22. Although work continues on the monthly review, the current number of discounts removed and the value of debt created since April 2021 is shown below:

	<i>Number Removed</i>	<i>Value for 2021/22</i>
<i>Babergh</i>	223	£80,139
<i>Mid Suffolk</i>	271	£82,128

National Fraud Initiative (NFI)

- 3.17 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.
- 3.18 The NFI exercise takes place every two years, with the latest main data extraction completed in December 2020, as part of the 2020/21 exercise. The Election and Single Discount Council tax data annual upload was completed in December 2021.
- 3.19 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. Higher risk matches are those defined as having a strong match that identifies an individual, e.g., same Date of Birth and National Insurance number.
- 3.20 Investigation of 103 High-Risk matches reviewed resulted in Babergh District Council recovering £872 due to ‘creditor data matching errors’ (2 separate purchase orders were raised and goods receipted under different suppliers for the same invoice. This was due to an administrative error and the user has been provided further guidance to avoid this re-occurring). Mid Suffolk District Council recorded 20 housing data matching errors, where tenants had not updated their new address or updated changes to their personal circumstances. These have now been corrected with no further action required.
- 3.21 Business grants data has again been added to this year’s upload to NFI to assist in the detection of fraudulent applications. In order to support the detection of fraud even further, NFI has introduced additional powers in terms of obtaining and analysing data within the private and public sector for all business grants, including Covid Business Support grants. The fees are envisaged by NFI not to cause a barrier to local authorities. This is now a mandatory exercise.

Housing tenancy fraud investigations

- 3.22 No housing tenancy fraud investigations have been identified other than the those identified through the NFI exercise. The results are summarised as follows:
- 17 cases (8 MSDC, 9 BDC) were identified as “gas capping” (the term used in this instance is where a property has been empty for a long time with no gas usage). This raised suspicions within the Housing team who started to

- log these cases as “abandonment.” Housing have since changed this process and now have a bespoke “gas capping job” which, if the property is found to be abandoned, would then instigate the abandonment process.
- 24 cases (11 MSDC, 13 BDC) were identified where a person had gone into a care/nursing home but lacked the capacity to give notice. In these instances, the Housing team have served a Notice to Quit and followed the abandonment process.

Right to Buy (RTB)

- 3.23 Mid Suffolk District Council has reported a suspected Money Laundering crime to National Crime Agency in February 2022. This was discovered when an application was received to buy a property without the required evidence to demonstrate the origin of funds for the purchase. The applicant re-applied on several occasions but continued to fail to provide the necessary evidence. The Officer took advice from the Corporate Manager, Internal Audit and East Suffolk’s Fraud Specialist and the potential crime logged as appropriate.

Coronavirus implications

- 3.24 Fraudsters are exploiting the spread of coronavirus (COVID-19 and Omicron) 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.
- 3.25 In response to COVID-19, the Government are continuing to provide funding through Local Authorities to support businesses. A member of the Internal Audit team is continuing to support 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 still 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 by liaising and reporting to Department for Business, Energy & Industry Strategy (BEIS). This work will continue while the grants are available.

To date only one fraudulent grant application has been paid in error by Babergh District Council. The fraudulent application was also received by another council in the south of England who alerted us to the commercial identity fraud. Officers, including those from the Share Legal Service, immediately investigated the case and referred the fraudulent application to Action Fraud. Action Fraud do not provide feedback on developments, but Babergh District Council has commenced the debt recovery process as per the instructions issued by Business, Industry and Energy Strategy (BEIS). No other frauds have been identified through the NFI data matching exercise, Spotlight checks (company and bank verification) or our own inhouse systems.

Conclusions

3.26 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

3.27 Some areas where a focus can be expected for 2022/23 follows:

- Continue ongoing NFI exercise;
- Ongoing COVID-19/Omicron support work around business grants;
- Supporting the Business Cell by providing a level of assurance over the administration of energy rebate payments recently announced by Government;
- Supporting both Councils to improve levels of awareness of fraud risks amongst staff;
- Continue collaborating with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures through the Suffolk Fraud Group; and
- Currently the general public can report fraud through a dedicated email and phone number via Suffolk County Council. These are then passed to Babergh and Mid Suffolk District Councils where relevant. In order to increase the speed of this service, a dedicated phone number and email for Babergh and Mid Suffolk District Council only will be available shortly to the general public to report allegations of fraud directly. The general public can either phone us and report a fraud through Customer Services or log it online, on our website. The report will be added to a secure platform, accessed by Internal Audit who will coordinate and manage the subject matter internally. When the form has completed all testing successfully, it will be promoted as appropriate as a live service.

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, given the low levels of fraud detected, 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 with sufficient and adequate resources this could affect the achievement of the Councils' strategic aims and priorities, key projects, the delivery of services and its reputation.	Unlikely (2)	Bad (3)	<p>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 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>

8. CONSULTATIONS

8.1 During preparation this report has been shared with both Chairs of the Joint Audit and Standards Committee; the Section 151 Officer and the Assistant Director, Law and Governance and Monitoring Officer. 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.