

## BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

<b>COMMITTEE:</b> Joint Audit and Standards Committee	<b>REPORT NUMBER:</b> <b>JAC/21/46</b>
<b>FROM:</b> John Snell – Corporate Manager – Internal Audit	<b>DATE OF MEETING:</b> 22 <sup>nd</sup> March 2023
<b>OFFICER:</b> John Snell – Corporate Manager – Internal Audit	<b>KEY DECISION REF NO.</b> N/A

### MANAGING THE RISK OF FRAUD AND CORRUPTION ANNUAL REPORT 2022/23

#### 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 the organisation. This is part of its normal role of supporting management along with 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 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 proactive 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 detection and fraud lies with management, 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.
- 3.8 The Senior Auditor successfully completed the CIPFA Fraud Technician Accredited Qualification in September 2022, which covered law relevant to fraud, including procedural and evidential frameworks for fraud investigations, as well as an overview of the civil and criminal justice systems dealing with fraud. This qualification will further enhance the team's counter fraud knowledge and experience from both a proactive and reactive perspective. Further fraud qualifications will be considered in due course.

### **Fraud Risk Register**

- 3.9 Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively.
- 3.10 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**

3.11 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*

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

- Raising Money Laundering awareness through a series of presentations to all Corporate Managers. This was followed up with compulsory online e-learning module for all staff to complete. This training will enable employees to recognise suspicious transactions and what to do if they identify them. The completed module will automatically be filed on everyone's personal records. This will also form part of the induction programme for new employees.
- The developed corporate 'Values' was used as an opportunity to remind staff of the Councils' Whistleblowing arrangements and how we as an organisation want to create an open and supportive culture, where staff feel comfortable in raising concerns when they feel something is wrong without fear of the consequences.
- Reminder to Councillors and staff on their responsibilities around gifts and hospitalities. This will now include annual checks undertaken by Internal Audit that will also include Declaration of Interests.
- Promoting best practise within the Councils, such as how to encrypt PDFs to prevent records being fraudulently altered.
- 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) 'Internal Fraud' webinar to alert the Councils to fraud trends nationally and to further strengthen internal controls to mitigate fraud.
- Both Councils are committed to being open and transparent. The Department for Levelling Up, Housing and Communities (DLUHC) 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*

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 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 2022 and December 2022 using the data received via VEP alerts SRP have identified £5,557.39 worth of overpayments for Babergh (62 cases) and £9,302.87 worth of overpayments for Mid Suffolk (90 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)*

- 3.16 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).
- 3.17 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.
- 3.18 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.

The SRP secured funding from Suffolk County Council to carry out a monthly review of single resident discount during 2022/23. Although work continues on the monthly review, the current number of discounts removed, and the value of debt created since April 2022 is shown below:

	Number Removed	Value for 2022/23
Babergh	167	£55,018
Mid Suffolk	182	£64,035

- 3.19 The removal of these discounts will generate an additional £73,000 (BDC), £77,000 (MSDC). Note this is the overall total to be shared between preceptors.
- 3.20 The percentage of single person discounts as a proportion of the overall taxbase is 30.46% (BDC) and 28.56% (MSDC). The national average is 32.93%.

### **Fraud Referrals to the Councils**

- 3.21 Since the launch of our Fraud Referral platform and Customer Services assistance in December 2022, Babergh District Council and Mid Suffolk District Council has received a total of 23 fraud referrals from the general public.

### **Referrals**

Category	BDC	Outcomes	MSDC	Outcomes
Single Person Discount Council tax	7	3 discounts removed. 1 eligible.	8	5 eligible. 3 unfounded allegations.

		3 ongoing investigations.		
Business Rates	2	Both cases passed to Licensing for investigation into allegations.	1	Ongoing investigation.
Planning Enforcement	1	Planning Enforcement already aware and case officer assigned.	0	N/A
Tenancy Services	1	Allegations of theft. Passed to Police - no evidence – case closed.	0	N/A
Benefits	1	Referred to Universal Credits.	1	Caution given. Shared Legal Service advised not in the public interest to take to court. Case closed.
Covid-19 Business Grants	0	N/A	1	Grant recipient invoiced. Ongoing.
<b>Total</b>	<b>12</b>		<b>11</b>	

### National Fraud Initiative (NFI)

- 3.22 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.
- 3.23 The NFI exercise takes place every two years, with the latest main data extraction completed in December 2022, as part of the 2021/22 exercise. The Elections and Single Person Discount Council tax data annual upload was also completed in December 2022. The release of the matches was delayed due to NFI experiencing system update problems. Consequently, the matches were released in February 2023, approx. 2 weeks later than previous years.
- 3.24 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.
- 3.25 The results of this exercise will be reported later in the year when matches have been reviewed and processed by all service areas.
- 3.26 Business grants data continues to be added to this year's upload to NFI to assist in the detection of fraudulent applications. This is currently a mandatory exercise.

## Housing tenancy fraud investigations

- 3.27 No housing tenancy fraud investigations or concerns have been identified other than the those cases identified through the NFI exercise, where potential fraud or error may have occurred. These cases are currently being looked into.

## Right to Buy (RTB)

- 3.28 No Right to Buy concerns have been reported during 2022/23.

## COVID-19 implications

- 3.29 In response to COVID-19, the Government provided funding through Local Authorities to support businesses. A member of the Internal Audit team is continuing to support the Business Cell in the post-event assurance undertaken by liaising and reporting to HMRC and the Department for Business, Energy & Industry Strategy (BEIS). This work will continue until all grants have been verified by BEIS.

## Energy Grant repayments

- 3.30 The Finance Team take the lead for paying these grants (£150). A member of the Internal Audit team supports the Energy Grant business cell, ensuring the appropriate governance arrangements are in place.
- 3.31 It is likely that local authorities will be expected to provide the same level of assurance as the COVID-19 business grants. To that effect, the Councils have applied their debt recovery process where grants have been paid and it has later been discovered the receiving parties did not qualify.

This resulted in:

### Babergh District Council

	Invoices	Total value £
Total Invoiced	27	4,050
Paid invoices	16	2,400
Invoices cancelled (As the recipients were able to provide further evidence of their eligibility)	2	300
Unpaid invoices	9	1,350

### Mid Suffolk District Council

	Invoices	Total value £
Total Invoiced	21	3,150
Paid invoices	14	2,100
Invoices being paid by instalments	1	150
Unpaid invoices	6	900

3.32 Attempts will continue to liaise with the recipients who have not yet cleared their debts. Should this not be successful, the debt will be passed to BEIS as per guidelines, and the Councils will not be liable for the debt.

### **Conclusions**

3.33 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**

3.34 Some areas where a focus can be expected for 2023/24 follows:

- Continue ongoing NFI exercise;
- Ongoing COVID-19/Omicron support work around business grants (reconciliation returns to BEIS and HMRC);
- 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
- Continue to coordinate and manage the online fraud referral platform on our website and through Customer Services to mitigate fraud within our districts.

## **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 Key risks are set out below:

Key Risk Description	Likelihood 1- 4	Impact 1- 4	Key Mitigation Measures	Risk Register
BMSDC may fail to identify fraud, corruption and bribery	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>	To be entered onto the Significant Risk Register.

## 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.