

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager – Internal Audit	Report Number: JAC99
To: Joint Audit and Standards Committee	Date of meeting: 13 March 2017

MANAGING THE RISK OF FRAUD AND CORRUPTION – ANNUAL REPORT 2016/17

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.

2. Recommendations

2.1 That 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.

3. Financial Implications

3.1 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 at all times will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

4. Legal Implications

4.1 There are no legal implications arising from these proposals.

5. Risk Management

5.1 The 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 delivery of services and its reputation.	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 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.
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6. Consultations

6.1 The Interim Assistant Director – Law and Governance, Assistant Director - Corporate Resources and Legal have been consulted on this report and any comments received have been incorporated in the report.

7. Equality Analysis

7.1 There are no equality implications.

8. Shared Service / Partnership Implications

8.1 The overall approach has been to develop an alignment of relevant policies and procedures to provide a clear corporate framework to counter fraudulent and corrupt activity across the two councils.

9. Links to Joint Strategic Plan

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

10. Key Information

10.1 This report shows those responsible for governance how both Councils are looking to fight fraud 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.

10.2 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.

10.3 Each Council's expectation of propriety and accountability is that Councillors and staff, at all levels, will lead by example in ensuring adherence to legal requirements, policies, procedures and practices.

Key issues and drivers

10.4 In general terms local government are reviewing how local services are to be delivered. The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed.

- 10.5 These changes are happening against a backdrop of reduced funding in which the general fraud risk tends to increase.
- 10.6 The European Institute for Combatting Corruption & Fraud (TEICCAF) reports on national, regional and local fraud detection by English councils. Their report entitled 'Protecting the English Public Purse 2015 – Fighting Fraud against English Councils' considers the key fraud risks and pressures facing councils and related bodies and identifies good practice. The scale of fraud committed against local government is large, but difficult to quantify with precision.
- 10.7 The Protecting the English Public Purse 2015 – *Fighting fraud against English Councils* reports that in total, English councils detected fewer cases of fraud in 2014/15 compared with the previous year. However, their value increased by more than 11 per cent. Right to Buys and tenancy frauds still feature as areas of fraud risk for councils. Previous scheduled work in these areas has been undertaken by Internal Audit and as a result a number of 'due diligence' checks have been implemented to further strengthen the control environment. Fraud and corruption risks are identified as part of the annual planning process.
- 10.8 The Protecting the English Public Purse 2016 report will be issued later this year. Internal Audit will note any new/emerging fraud risks facing Councils and will react accordingly.

The Risk of Fraud

- 10.9 In practice, each Council's mitigating controls include clear policies and procedures available to all staff; and a sound internal control environment, as demonstrated by internal and external audit opinions and the most recently published Annual Governance Statement.
- 10.10 However, whilst there are mitigating controls in place to manage the risk of fraud, this can never be expunged completely. Each Councils' Financial Regulations give the following responsibility to the Corporate Manager for Internal Audit: the development and maintenance of a Prevention of Financial Crime Policy and ensuring that Members and staff are aware of its contents. The Policy was approved by this Committee on 16th March 2015 (Paper JAC49) and disseminated to all Members and staff. A copy of the Policy is held on both Council's websites.

Fraud Risk Register

- 10.11 Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively.
- 10.12 Internal Audit has produced a Fraud Risk Register, which contains a list of areas where Internal Audit and service managers believe the Councils are susceptible to fraud. This register will enable the Councils to focus on suitable internal controls to mitigate any subsequent risk. The register also influences the audit planning process – refer to paragraphs 10.21 to 10.24.

Raising awareness and openness

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

- Alerting staff of National Fraud Bulletins and non-benefit threat alerts from the City of London Police and ensuring that associated internal controls are robust;
- Completion of national fraud and corruption surveys; and
- Attendance of the annual Fraud and Error conference. Speakers are invited from central and local government to talk about old and new techniques and approaches for tackling fraud and error. Topics include: the use of technology and data matching initiatives; potential benefits of collaborative working and pooling data intelligence.

10.14 On 1 April 2016 both Councils became members of the National Anti-Fraud Network (NAFN). We are required to join as a result of The Regulation of Investigatory Powers Act 2000 (RIPA). RIPA legislates for the use by Local Authorities of covert methods of surveillance and information gathering to assist in the detection and prevention of crime. If we wish to obtain communications data under RIPA we are now required to use NAFN. Membership also brings a number of benefits, namely:

- Acquisition of data legally, efficiently and effectively from a wide range of information providers (for an example of their service refer to paragraph 10.47);
- Acting as the hub for the collection, collation and circulation of intelligence alerts;
- Providing best practice examples of process, forms and procedures; and
- Compliance with the law and best practice: All data is acquired in full compliance with the law and best practice. NAFN report that their systems are secure and centrally maintained to the highest standards and are recognised as an expert provider of data services by the Interception of Communications Commissioner's Office, the Home Office, the DWP and the DVLA amongst others.

10.15 Both Councils are committed to being open and transparent. The published 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 now includes publishing information on each Councils' counter fraud work.

Policies and Procedures

10.16 The Councils are committed to ensuring that the opportunity for fraud and corruption is minimised. It adopts a culture in which all of its staff and Councillors can help the organisations maintain a proactive attitude towards preventing fraud and corruption by reporting corrupt, dishonest or unethical behaviour. This is supported by the Prevention of Financial Crime Policy, which was approved by this Committee in January 2015 and the recently published Commissioning and Procurement guidelines.

CIPFA Code of Practice – Managing the Risk of Fraud and Corruption

10.17 The Code includes high level principles that set out counter fraud good practice, suitable across the public sector. It is of key interest to organisations looking to improve the effectiveness of their counter fraud arrangements.

10.18 There are five key principles that make up the code:

- Acknowledge the responsibility of the governing body for countering fraud and corruption;
- Identify the fraud and corruption risks;
- Develop an appropriate counter fraud and corruption strategy;
- Provide resources to implement the strategy; and
- Take action in response to fraud and corruption.

10.19 In December 2015, a document was issued by CIPFA to assist organisations implement the Code and specific guidance was issued for each of the key principles above. A self-assessment undertaken by Internal Audit showing compliance with the detailed requirements was produced and reported to this Committee in April 2016.

10.20 Having considered all the principles, the Corporate Manager – Internal Audit is satisfied that the Councils have adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. This same statement will also appear in the Councils' Annual Governance Statement 2016/17 as recommended by CIPFA.

Internal Audit

10.21 Fraud and corruption risks are identified as part of the annual planning process and contribute to the overall formation of audit coverage.

10.22 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.

10.23 Internal Audit can undertake additional work, but it must not be prejudicial to their primary role. Activities carried out include:

- Investigating the causes of fraud;
- Reviewing fraud prevention controls and detection processes put in place by management;
- Making recommendations to improve those processes;
- Using internal knowledge within the Internal Audit team, or bringing in any specialist knowledge and skills that may assist in fraud investigations, or leading investigations where appropriate and requested by management;

- Responding to whistleblowing allegations;
- Considering fraud risk in every audit; and
- Facilitating corporate learning.

10.24 The annual Audit Plan has an allowance for Internal Audit to undertake irregularity investigations, National Fraud Initiative 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.

Cyber crime

10.25 The public sector is a key target for cyber criminals. This is evident with several local authorities recently falling to ransomware attacks. An audit is due to be undertaken to provide assurance on whether the Councils have in place controls that will contribute to the security of the Councils' cyber arena. The review will give consideration to the UK Government Communications Headquarters (GCHQ) – produced 10 Steps to Cyber Security. The findings will be reported to this Committee in the Internal Audit Annual Report 2016/17 in May 2017.

Benefit Fraud

10.26 The way Housing Benefit is investigated changed for our Councils on 1st May 2015 following a government initiative to create a single integrated fraud investigation service with statutory powers, which included the investigation and sanction of Housing Benefit offences. From 1st May 2015 all suspected Housing Benefit fraud cases are referred to the DWP within a new team called the 'Single Fraud Investigation Service' (SFIS).

Fraud update from the Shared Revenues Partnership (SRP)

10.27 The SRP secured funding from the DWP under the Fraud and Error Reduction Incentive Scheme (FERIS) for 2016/17. The SRP have run targeted campaigns to reduce fraud and error Housing Benefit cases. These campaigns have been selected in areas that historically the SRP are aware that there may have been changers that the customer may not have informed the benefits department, for example changes in Private/Occupational Pensions; and whose capital may have gone over the £16k threshold.

10.28 Further enhancements are being introduced in 2017. The SRP will contact the customer and request that they submit information on-line via a secure portal. Once submitted the information will be directly input into the benefit system. This would then be checked by a Benefits Officer and processed. Financial rewards for hitting overpayment thresholds have been received; Mid Suffolk has received a payment of £5,367 and Babergh £3,850.

10.29 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.

- 10.30 Every new benefit claim is crossed 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.
- 10.31 The SRP secured funding from Suffolk County Council to carry out a monthly review of single resident discount during 2016/17. Although work continues on the monthly review, the current number of discounts removed and the value of debt created since April 2016 is shown below:

	Number Removed	Value for 2016/17
Babergh	176	£57,641
Mid Suffolk	170	£61,345

- 10.32 In addition, Real Time Information (RTI) – Bulk Data Matching Initiative is HM Revenue and Customs (HMRC) new system for collecting Pay As You Earn (PAYE) information from employers and pension providers who are required to provide HMRC with income details immediately after each payment they make. The Department for Work and Pensions (DWP) and HMRC have a joint Fraud and Error Strategy and seek to collaborate where possible, especially where one department's assets are of value to the other. Right to Buy is an example of such an asset and provides new opportunities to identify fraud and error across all social security benefits. DWP carries out an exercise matching HMRC RTI against data held on six social security benefits, including HB to identify cases where claimants have either failed to declare or have under declared earnings and/or non-state pension.
- 10.33 Using the above matching SRP have identified £85,125 worth of HB overpayments for Mid Suffolk (199 cases) for the period April 2016 to December 2016 and £62,596 worth of overpayment for Babergh (166 cases).

National Fraud Initiative (NFI)

- 10.34 Councils are required to participate in the biennial NFI, the Cabinet Office led exercise (previously run by the Audit Commission before its cessation) involving data matching of records nationally from public service databases.
- 10.35 Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.
- 10.36 The 2014/15 NFI exercise has been completed and the results were reported to this Committee last year.
- 10.37 The data requirements and data specifications for the 2016/17 NFI exercise were completed and successfully uploaded using the NFI's secure electronic upload facility. The data matching results were made available in January 2017 and work has begun on reviewing the results.

Reported Irregularities – 2016/17

Housing Tenancy Fraud cases

10.38 Since April 2016 Community Housing Officers have investigated eight cases of suspected housing related frauds (four in Babergh and four in Mid Suffolk). These have been as a result of anonymous complaints/whistleblowing, intelligence gathered by Community Housing Officers, and/or as part of matters that initially involved work undertaken by Tenant Services for example: welfare checks, missed gas servicing, empty or unkept properties.

10.39 The results of the investigations are summarised below:

- One investigation of Right to Buy fraud within Mid Suffolk, this case was successfully proven and with the purchase of the property being prevented. It is intended that aspects of this case will feature in Housing Enforcers, a BBC documentary in to the work of Social Housing for which we have participated in during the past two series (for further details refer to paragraphs 10.46 to 10.48); and
- A total of seven cases of 'not occupying a council property as the principal home' have been investigated (four in Babergh and three in Mid Suffolk). Of which a total of four cases have been investigated as 'closed' with no further action, whilst a further three are still being investigated.

10.40 To ensure Housing are dealing with any potential fraud robustly they are currently looking to provide front line officers with refresher Tenancy Fraud training.

Whistleblowing

10.41 Concerns were raised regarding instances of misuse and disposal of council property. As a result clear instructions have been issued to staff advising that items left in or beside council skips, surplus or waste materials from completed jobs or items left in or outside of void properties by vacating tenants cannot be taken for personal use or gain without permission or advice from a manager.

Fraudulent Business Rates bill

10.42 A fraudulent Business Rates bill had been created and sent to a utility company in an attempt to extort money using a legitimate business rate payer in Babergh. Through the diligence checks performed by the utility company when there is a change of tenancy they became suspicious of the bill and contacted the Council. Internal Audit liaised with colleagues from the Shared Revenues Partnership and as a result reported the attempted fraud to Action Fraud (National Fraud and Cyber Crime Reporting Centre) and alerted the legitimate rate payer. The attempted fraud was averted.

Change of bank account details

10.43 This type of fraud occurs when someone gets an organisation to change bank account details by purporting to be from a supplier they make regular payments to in order to benefit from unauthorised payments.

- 10.44 In November 2016, Mid Suffolk received a letter from a construction firm informing the Council that their bank account details have changed and requested that we amend our records to ensure all future payments are credited to their new bank account.
- 10.45 Part of the Commissioning and Procurement team's due diligence checks are to confirm with the supplier that amended details of this nature are verified back to source information. In this case the company's Financial Controller was contacted to confirm the reliability and integrity of the request. The Financial Controller confirmed that no such request had been made and reported the incident to the Police via the Action Fraud line that they had been subject to an attempted fraud.
- 10.46 Internal Audit also contacted Action Fraud and made reference to the company's case reference number. Although the fraud had been averted, had money left the Council's account the Council would have been deemed to be the victim of the fraud.

Right to Buy (RTB) fraud

- 10.47 In May 2016, officers processing a RTB application within Mid Suffolk became suspicious of the tenant not occupying the property as their principal home. Investigations by the Home Ownership Team, Environmental Enforcement and Tenant Services led officers to making enquiries with neighbours conducting credit checks following recent membership to the National Anti-Fraud Network (NAFN).
- 10.48 These enquiries lead to a third party address being obtained for the potential occupancy of the tenant concerned. Further checks with Council Tax at Waveney DC and visits to the address confirmed that the tenant had moved away from their original property and was now privately renting. Thus losing their security of tenure, invalidating their RTB application and potentially being subject to a criminal investigation under the Prevention of Social Housing Fraud Act 2013.
- 10.49 Following advice by our legal team papers were served on the former tenant to prevent them from purchasing the council property and giving them notice to vacate the council property returning it to the Council. Thus freeing up a three bedroom house to let to someone in most need via the Housing Register.

Looking ahead

- 10.50 Some areas where a focus can be expected for 2017/18 are as follows:
- Continue ongoing NFI exercise;
 - Supporting both Councils to improve levels of awareness of fraud risks amongst staff; and
 - Work with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures.
- 10.51 As we face reduced funding both Councils need to assess fraud risks effectively to target resources where they will produce most benefit. Namely:
- Maintain capacity to investigate non-benefit fraud;

- Be alert and reactive to national fraud concerns; and
- Ensure we have the right skills to investigate all types of fraud.

Conclusions

10.52 The Corporate Manager – Internal Audit currently considers that both Councils have sound anti-fraud and corruption arrangements in place and therefore no further action is required, commensurate with the risks, but the Councils must nevertheless remain vigilant.

11. Appendices

11.1 None.

12. Background Documents

12.1 Prevention of Financial Crime Policy.

12.2 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

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