BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager - Internal Audit	Report Number:	**JAC/17/21**
To: Joint Audit and Standards Committee	Date of meeting:	**12 March 2018**

MANAGING THE RISK OF FRAUD AND CORRUPTION – ANNUAL REPORT 2017/18

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

2.   Recommendation
2.1   That the Committee comments upon and endorses the progress made in ensuring there are effective arrangements and measures in place across both Councils to minimise the risk of fraud and corruption.

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	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

services and its reputation.			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.

6. Consultations

6.1 The Assistant Director – Law & Governance and Monitoring Officer, 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.

10.4 The Councils also expect that individuals and organisations (e.g. suppliers, contractors, partners and service providers) with whom it comes into contact will act towards the Councils with integrity and without thought or actions involving fraud and corruption.

Levels of officer responsibility

10.5 The Financial Regulations within each Council's Constitution state that 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 contents; 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.

10.6 Furthermore, all officers are responsible for giving immediate notification to the Corporate Manager – Internal Audit on fraud matters where there are grounds to suggest that fraud or corruption have occurred.

10.7 The Corporate Manager – Internal Audit is the Money Laundering Reporting Officer (MLRO) and is responsible for ensuring that proper procedures are in place to combat the possibility of the Councils being used for money laundering purposes. See also paragraph 10.36.

10.8 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 risks lies in the directorates, and not Internal Audit.

Internal Audit

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

10.10 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.

10.11 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;

- Under the Public Sector Internal Audit Standards (PSIAS) we consider aspects of fraud risk in planning all audits; and

- Facilitating corporate learning.

10.12 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.

Fraud Risk Register

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

10.14 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 10.9 to 10.12.

Policies and Procedures

10.15 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 'fraud and corruption tracker' summary report 2017

10.16 The summary report helps organisations understand where fraud losses could be occurring. CIPFA estimates that across local authorities more than 75,000 frauds have been detected or prevented in 2016/17 with a total of £336.2 m. The number of fraud cases investigated or prevented dropped in 2017, but the average value per fraud increased from £3,400 to £4,500, which might suggest that local authorities are focussing on cases with a higher value.

10.17 With regard to District Councils, Housing and tenancy fraud still represents the highest value of all fraud types totalling £263.4m. This is made up of Right to Buy, illegal subletting and other tenancy frauds which includes succession frauds and false applications. See also paragraphs 10.33 to 10.36 below.

Pro-active Anti-Fraud work

Raising awareness

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

- Alerting staff of National Fraud Bulletins and non-benefit threat alerts from City of London Police and ensuring that associated internal controls are robust;

- Completion of national fraud and corruption surveys;

- Reminder to Councillors and staff on their responsibilities around gifts and hospitalities;

- 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.

10.19 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.

10.20 Training on preventing and detecting tenancy fraud including money laundering was run in May 2017. The objectives covered:

- Understanding the importance of tackling fraud;

- Types of fraud we see in housing;

- Prevention techniques;

- How to spot fraudulent ID and residency documents; and

- Data protection issues.

Benefit Fraud

10.21 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)

10.22 The SRP secured funding from the DWP under the Fraud and Error Reduction Incentive Scheme (FERIS) for 2017/18. 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 changes that the customer may not have informed the benefits department of, for example changes in Private/Occupational Pensions or child care costs changing on receipt of nursery vouchers or starting school.

10.23 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.

10.24 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.

10.25 The SRP secured funding from Suffolk County Council to carry out a monthly review of single resident discount during 2017/18. Although work continues on the monthly review, the current number of discounts removed and the value of debt created since April 2017 is shown below:

	Number Removed	Value for 2017/18
Babergh	180	£61,758
Mid Suffolk	186	£66,448

10.26 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.

10.27 The SRP also undertook to take on additional Real Time Information from October 2017 when given the opportunity to participate in the Wider Use RTI initiative. The WURTI initiative has now been renamed VEPs – Verify Earnings and Pensions Service and allows access to HMRC data to access and validate up to date earning information helping to reduce error and minimise the risk of fraud.

Using the above matching SRP have identified £246,699 worth of HB overpayments for Mid Suffolk (467 cases) for the period April 2017 to January 2018 and £313,947 worth of overpayment for Babergh (529 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)

10.28 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 the Councils, must provide data for matching with other local government organisations.

10.29 The NFI exercise takes place every two years, with the latest data extraction being completed in October 2016, as part of the 2016/17 exercise.

10.30 Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.

10.31 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.

10.32 Work has started on investigating the recommended matches.

Housing tenancy fraud cases

10.33 Since April 2017 Community Housing Officers have investigated 12 suspected cases of housing-related fraud (5 in Babergh and 7 in Mid Suffolk). These have come about as the result of complaints, intelligence gathered by Community Housing Officers, or following other work undertaken by the Tenant Services team (for example: welfare checks, empty or unkept properties).

10.34 The results are summarised below:

- There have been 11 investigations into concerns that tenants were not occupying a council property as their only or principal home (5 in Babergh and 6 in Mid Suffolk). Of these, 6 cases are now closed with no further action required, 1 case has resulted in the serving of a Notice to Quit and possession of the property, and a further 4 cases are still being investigated.

- There has been 1 investigation into an allegation of 'unlawful subletting' (in Mid Suffolk), which was subsequently closed with no further action required.

10.35 The Community Housing Officers, including a member of the Internal Audit team, also attended Tenancy Fraud training to enable them to better identify, and respond to, suspected fraud cases. The feedback from the attendees was very good, and they have since had opportunities to apply their learning.

Right to Buy

10.36 RTB statistics for BMSDC 2016/17 and 2017/18

| | 2016/17 | | 2017/18 | |
	Babergh	Mid Suffolk	Babergh	Mid Suffolk
Number of applications received	51	76	51	42
Number of applications approved	36	46	31	26
Number of applications withdrawn/refused *	15	30	20	16

*　　　Reasons for applications being withdrawn/refused include:

Reason for withdrawal/refusal	Babergh		Mid Suffolk	
	2016/17	2017/18	2016/17	2017/18
Applications denied: • Arrangement with Creditors • Property suitable for elderly people • Notice to seeking Possession	2	2 1	 2	
Applications withdrawn: • No response to the Offer Notice • Reason unknown • Unable to get a mortgage • Change in personal circumstances • Did not arrange a due diligence meeting • Health problems • Potential fraud ** • Detected tenancy fraud • Tenant delayed the process • Applicant to reapply when discount is higher	3 5 1 1 3	11 3 1 1 1	4 15 2 2 2 1 1 1	3 9 2 1 1
Total	**15**	**20**	**30**	**16**

** The Money Laundering Reporting Officer (MLRO) reported these cases to the National Criminal Intelligence Service.

Change of bank account details

10.37 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.

10.38 In April 2017, Babergh 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.

10.39 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 Finance Section were contacted to confirm the reliability and integrity of the request. They 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.

10.40 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.

Looking ahead

10.41 Some areas where a focus can be expected for 2018/19 are as follows:

- Continue ongoing NFI exercise;
- Supporting both Councils to improve levels of awareness of fraud risks amongst staff;
- Work with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures; and

10.42 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.

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