Fraud Risk Assessment

REPORT TO AUDIT AND STANDARDS COMMITTEE

DATE	**26/01/2023**
PORTFOLIO	**Resources and Performance Management**
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PURPOSE

1. To inform Members of the current fraud trends that affects the public sector.

RECOMMENDATION

2. That Committee note the report.

REASONS FOR RECOMMENDATION

3. The Council's arrangements for the fight against fraud and corruption are monitored by the Audit and Standards Committee.

4. The Committee is satisfied with management's reaction to the report and the risk of fraud.

SUMMARY OF KEY POINTS

5. There are very few updated fraud reports which relate to Local Government. In 2022 there was a major central government counter fraud change. In March 2022 there was an announcement of a new fraud risk assessment standard and in August they announced a new anti-fraud authority for central government. Later in 2022 the Government published the Economic Crime and Corporate Transparency Bill, which has not yet been passed into law, but is targeted to address fraud and money laundering linked into the sanctions imposed in response to the Ukrainian War.

6. CIFAS published a report based on surveys that 1 in 10 people know someone who was falsely claiming Council Tax benefits and 10% did not think that claiming Single Person Discount falsely was illegal. 8% of people considered that it was reasonable. Defrauding the Council is not a victimless crime but puts more pressure on the council's finances.

7. The Office of National Statistics published its National Crime Statistics 2022. It identified that fraud significantly increased during the pandemic. It has now returned to pre-pandemic levels, suggesting that the increase was due to the pandemic rather than change in trends. This was similar to the trend in computer-based offences. An individual is most likely to experience a fraud crime. There were 3.8M fraud offences in the year to June 2022.

Council Tax

8. Council Tax remains the largest area of identified fraud. Council Tax fraud is split into 3 sections;
    a. Single Person Discount (SPD),
    b. Council Tax Support (CTS) and
    c. Other types of council tax fraud (discounts and exemptions).

9. As stated, the CIFAS report highlights that a proportion of the public do not consider this a crime and knows someone who is falsely claiming Council Tax discount. However this does not allow us to assess the number of potential cases in Burnley; it does indicate that about 7,000 Burnley residents who know someone falsely claiming CT benefits. There are about 16,500 SPD accounts in Burnley.

10. The SPD data has been matched to the Election Roll and the matches from this has been referred to the Revenues and Benefits Service to investigate.

11. With regards to Council Tax for long-term empty properties, it is likely that the risk of fraud in this area has increased. There are 222 accounts with a premium charge for being empty.

Housing Benefit & Council Tax Support

12. During 2021/22 the Council paid £22.8m in Housing Benefit (HB) (down £2m from 20/21) and £9.3m in Council Tax Support (CTS) (about the same as 20/21).

13. The Council is no longer responsible for the investigation of HB fraud, but it is responsible for referral of potential fraud cases and the collection of amounts identified as fraud. It is still considered a risk as the financial loss of benefit is borne by councils once the investigation is complete.

14. In 2021/22 there have been 12 referrals made to the Single Fraud Investigation Service (SFIS) and there has been 3 requests for information from the SFIS.

15. £362k of Housing Benefit has been identified as overpaid for 967 accounts. Currently the service is reviewing a selection of cases as part of the Housing Benefit Award Accuracy Initiative (HBAAI) which is a DWP funded exercise to check claim accuracy.

Business Rates

16. As a result of the Covid Business Support grants made over the past couple of years the accuracy of the Business Rates database of occupiers and liable parties is high.

17. The risk of businesses not notifying the council of occupancy changes remains. To mitigate this risk, empty non-domestic properties are examined by area on a rota-based system or on request of the Business Rates Officer. Websites such as National Heritage and the

Charity Commission are checked to ensure that businesses are entitled to the discount. Discretionary relief can only be approved by the Head of Finance and Property Service.

18. Social media accounts and internet searches are used to obtain background information. Neighbouring authorities are liaised with to verify residence or occupancy.

19. In 2021/22 we granted £8.75M in Exemptions and Discounts. In 2023/24 there is a revaluation due for business rates based on valuations on 1 April 2021.

Housing Tenancy Fraud

20. Nationally there has been an increase in the number of tenancy frauds taking place. Tenancy fraud does not directly affect Burnley Borough Council as it no longer has responsibility for social housing. It does impact on the Council as homeless individuals could be accommodated in properties occupied fraudulently. This increases the Council costs in accommodating the homeless.

21. Continued participation with the National Fraud Initiative means we share benefit information with Housing Associations which could assist them in identifying tenancy fraud.

22. The Council is part of the regional Choice Based Letting scheme which has 5 local authorities and 16 registered social landlords. Information is shared with other partners in the scheme.

Procurement

23. Procurement continues to be one of the greatest areas of fraud risk.

24. To mitigate the risk, the Council has Codes of Conduct for Employees and Members, Financial Procedure Rules and Standing Orders for Contracts in place. The purchasing system has built-in approval thresholds and there is a separation of duties between orders and goods receipted. There are tender evaluation models and a facility for an on-line secure tender receipt. Financial checks are undertaken relative to the risk/value i.e. Company House checks and credit rating checks. Progress is underway on updating the Procurement Policy.

25. On certain larger value procurements (and dependent on the procurement route), contractor financial checks are undertaken in terms and a Selection Questionnaire is completed with mandatory and discretionary exclusion criteria looking at issues around bankruptcy, convictions, non-payment of tax, etc.

Insurance Fraud

26. This fraud includes any false insurance claim made against an organisation or an organisation's insurer.

27. Insurance claims are managed by Pendle Borough Council on our behalf. Claims are sent to them, and they liaise with the insurers. The Council's Insurers log all claims on a national database and cross check claimants to see if they have claimed previously. Insurers also check addresses and accident location against other claims. This is a continuous process throughout the life of the claim as other red flag alerts might come up, e.g. dubious medical records etc. Our insurers are part of an anti-fraud network with other insurers.

28. Whilst claims against the Council have been refused based on the Council not being liable for the claim or other reasons, there has been no specific cases of fraud reported in 2021/22.

Grant Fraud

29. This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation. Various types of grants awarded by the Council were examined. Controls included procedural notes, separation of duties and obtaining supporting documentation. There are controls in place about bank mandate fraud.

30. In 2021/22 the Covid 19 grant schemes continued and checks were maintained including bank account checks to ensure that these are correct for the applicant.

31. The Energy Rebate scheme required additional bank account checks for thousands of applicants who did not pay via direct debit. The checks were made via a central government portal Spotlight. The cost of these counter fraud checks was funded by central government.

32. The Council continues to operate a wide range of grant schemes in Housing and in Economy and Growth.

33. The UK Shared Prosperity Fund has requested details of how the Council will assess and treat fraud risks in the scheme. This has led the council to require fund applicants to address fraud in their schemes.

Recruitment Fraud

34. Measuring the cost of this type of fraud is quite difficult. The cost can include the impact of reputational damage, on top of the actual costs of further recruitment and investigating the fraud.

35. The council requires that any person involved in the recruitment of employees must firstly attend training. There is a policy and toolkit available on the website to provide guidance.

36. Original documentation is examined, and photocopies are held for both ID and qualifications. Whilst it is not Council policy, some managers check applicants on professional membership websites. An internal (RS3) form is completed by the managers to confirm that ID and qualification checks have been carried out and this is passed to HR.

37. HR Administration team ensures that references, DBS (previous conviction checks which are required for certain jobs) and medical clearances are obtained prior to sending a formal offer.

Payroll Fraud

38. A quarterly audit is carried out. A spreadsheet detailing pay grades of current staff and any staff changes is sent to the Heads of Service for review and authorisation.

39. Notifications are issued automatically if changes are made to employee details on the establishment/payroll system.

40. A monthly audit is carried out by HR staff in Liberata to ensure performance indicators are met.

Cyber Risk

41. Whilst still a significant risk area, the Crime Survey indicates that computer related crime reported in the survey by the public has reduced (by 27%) after the pandemic. In terms of the crimes reported by the public to Action Fraud there has been a 4% increase in reported cyber offences.

42. The council has significantly increased its dependency on information technology to enable working from home, this increases the impact of this risk.

43. Cyber fraud can occur in several ways. The main areas are – Social engineering, Software weaknesses and malware. Social engineering comes by attacking users to get them to provide their log in credentials so that a hacker can gain access to the system. Software is continually attacked, and weaknesses are exposed which can be exploited by hackers to again gain access to systems and data. Malware continues to be a threat, in particular Ransomware; malicious code is introduced onto the computers and this then encrypts data and/or software and a ransom payment is requested to un-encrypt the system.

44. The council must ensure that it keeps up to date with the approaches to prevent this fraud. Staff training and awareness is a valuable tool against social engineering e.g. so that phishing e-mails etc are not opened. In addition, e-mail scanning and website blocking is also employed. There are various policies and procedures in place. The IT Security policies have been reviewed

45. We keep software up to date with patches which are issued to address known software weaknesses. The Council operates firewalls on computers and servers to prevent access which would enable the introduction of malware on to the system. All these controls act to prevent cyber fraud against the council.

46. The Council has been completing a major plan to improve its cyber resilience, specifically to address the risk of ransomware attacks, however this will provide resilience against a wide range of malware attacks.

Organised Crime

47. Organised crime often involves complicated and large-scale fraudulent activity which crosses to more than one area such as insurance claims, business rates, procurement, etc. Cases involving organised crime come from all types of local authorities. It is important that there is co-ordination and information sharing in tackling this type of fraud as well as the various arrangements which reduce the risk of fraudulent activity taking place.

48. The Council cooperates with national agencies such as Action Fraud and the Council's arrangements to prevent money laundering are important in this area. These arrangements include restricting the maximum cash payment it will accept.

NAFN (National Anti-Fraud Network)

49. The Council is a member of NAFN. This is a national organisation which is specific to local authority fraud. They provide data and intelligence services supporting members in protecting the public purse from fraud, abuse and error.

National Fraud Initiative (NFI)

50. This year 2022/23, is a year with a main National Fraud Initiative exercise. We provided data from several of our main systems in October 2022, to enable this to be matched against itself and data from other organisations. This enabled the identification of matches which needed to be risk assessed and the high-risk ones to be investigated to check that this does not represent a fraud against the Council. Matches are received for checking in February.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

51. None as a direct result of this report, however losses to fraud have a direct impact on the Council's finances.

POLICY IMPLICATIONS

52. The Council has a Corporate Anti-Fraud, Bribery and Corruption Policy and an Internal Audit Strategy.

DETAILS OF CONSULTATION

53. None

BACKGROUND PAPERS

54. CIPFA Fraud and Corruption Tracker 2020 report
https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fraud-and-corruption-tracker

55. The Financial Cost of Fraud 2021
https://www.crowe.com/uk/insights/financial-cost-fraud-data-2021

56. CIFAS 1 in 10 Council Tax
1 in 10 Brits know someone defrauding public purse | Cifas

57. ONS Crime Survey
Crime in England and Wales - Office for National Statistics (ons.gov.uk)

58. Public Sector Fraud Authority
Public Sector Fraud Authority - GOV.UK (www.gov.uk)

FURTHER INFORMATION

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ALSO: