

Fraud Risk Assessment

REPORT TO AUDIT AND STANDARDS COMMITTEE



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| 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. The current published fraud reports are;
 - Annual Fraud Indicator 2023 (Crowe, Peters & Peters and University of Portsmouth)
 - Financial Cost of Fraud 2021 (Crowe)
 - Fraudscape 2023 6 month update (CIFAS)
 - Cyber Security Breaches Survey 2023 (Department for Science, Innovation and Technology)
 - Tackling fraud and corruption against government 2023 (National Audit Office)
 - Tackling fraud in the public sector - a local government perspective 2020 (Perpetuity Research & Consultancy International (PRCI) Ltd)

6. According to the Annual Fraud Indicator 2023 (AFI), there has been a loss of £4.6 billion in Local Government fraud (excluding benefits). Some of these fraud areas mentioned are Housing Tenancy, Procurement, Payroll and Grant Fraud.
7. Internal policies such as the Anti-Fraud, Bribery and Corruption (ABC) Policy and the Whistleblowing Policy were examined. This was to establish if the policies in place met CIPFA's recommended "... a general fraud policy should include guidelines on what registers and, where appropriate, mandatory declarations of interest. A visible and well-articulated whistleblowing policy is also essential for creating an anti-fraud culture.". No issues arose.

Council Tax

8. Council Tax continues to be an area of identified fraud. Council Tax fraud is split into 3 sections;

Single Person Discount (SPD),
Council Tax Support (CTS) and
other types of council tax fraud (discounts and exemptions).

Details of the SPD exercise are shown below.

9. As the Council increases the Council Tax for Empty properties, it is likely that the risk of fraud in this area has increased. The Council's strategic partner reviews the status of empty residential properties on a regular basis.

Housing Benefit & Council Tax Support

10. During 2022/23 the Council paid £22.3m in Housing Benefit (HB) and £9.3m in Council Tax Support (CTS).
11. 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.
12. Over the previous 12 months, there have been 9 referrals made to the Single Fraud Investigation Service (SFIS) and there has been 1 request for information from the SFIS. During 2022/23, £357k of Housing Benefit has been identified as overpaid.

Business Rates

13. Business rates fraud can include the falsification of circumstances to gain exemptions and discounts.
14. 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 Director of Resources.
15. Social media accounts and internet searches are used to obtain background information. Neighbouring authorities are liaised with to verify residence or occupancy.

Housing Tenancy Fraud

16. 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. Continued participation with the National Fraud Initiative means we share benefit information with Housing Associations which could assist them in identifying tenancy fraud.
17. 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

18. Procurement continues to be one of the greatest areas of fraud risk. 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 received. 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.
19. 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

20. This fraud includes any false insurance claim made against an organisation or an organisation's insurer.
21. Insurance claims are dealt on our behalf by Pendle Borough Council. 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 before. 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.

Grant Fraud

22. 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.
23. Various types of grants awarded by the Council were examined. Controls included procedural notes, separation of duties and obtaining supporting documentation.
24. There are controls in place in regard to bank mandate fraud.

Recruitment Fraud

25. 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.
26. 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.
27. 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, where applicable. 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.
28. 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

29. 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.
30. Notifications are issued automatically if changes are made employee details on the HR21 system.
31. A monthly audit is carried out by HR staff in Liberata to ensure Performance Indicators are met.

Outsourced Functions

32. Where services/functions had been outsourced, contracts were examined to establish if controls were in place in regards to fraud and corruption.

Cyber Risk

33. The 2021 Financial Cost of Fraud report by Crowe estimates the cost of fraud to the UK is between £137bn - £190bn a year.
34. 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 unencrypt the system.
35. The council must ensure that it keeps up to date with the approaches to prevent this fraud. Staff training and awareness is an important tool against social engineering 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.

36. We keep software up to date with patches which are issued to address known software weaknesses. The Council operates firewalls on computers 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.

Organised Crime

37. Organised crime often involves complicated and large-scale fraudulent activity which crosses to areas 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. The Council's arrangements to prevent money laundering are important in this area. Our experience with organised crime is limited, although we are aware that we will be targeted, and we did have some exposure with Covid Grants where we cooperated with the Central investigation team.

38. The council cooperates with police investigations into modern slavery and people trafficking.

NAFN (National Anti-Fraud Network)

39. 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)

40. The Council is required to participate in the National Fraud Initiative in a national exercise every two years. The Council submitted its data in October 2022 and most of the matches from the exercise were released in February 2023. Some were released later and those were processed as they were released.

41. The various services checked the matches as suggested by the Cabinet Office who run the NFI. The quality of the reports and if they are considered as 'key' reports, are recorded and a risk score is provided for the majority of matches.

42. The outcomes to the end of November 2023 are shown as detailed in appendix 1. There were 905 matches, of which 693 were processed. There were 18 cases in progress, and in total 48 errors were identified. None were identified as fraud. In total £53,818.17 was identified as recoverable. The Cabinet Office also provides an additional estimate of £108,927.88, which includes a longer-term impact cost of the outcome. This provides a total of £162,746.05.

Single Person Discount 2023-24

43. The Council's strategic partner Liberata undertook a full review of the single person discount (SPD) claimants.

The results are in the tables below;

| Stage | Case Count |
|-----------------|------------|
| Initial Canvas | 1,570 |
| Reminder Letter | 555 |

| Outcome Type | Case Count | % |
|------------------------------|------------|-----|
| Change In Discount/Exemption | 2 | <1% |
| SPD Removed | 335 | 21% |
| SPD Valid Case | 1221 | 78% |
| Investigations Ongoing | 12 | <1% |

44. Of the 335 SPDs removed:

- 264 removed as the customer failed to respond to the review.
- 71 removed upon notification of an undeclared household member or partner.

45. SPD is 25% of the current charge and full rate for a Band A property is currently £372.74. This would be an increased charge of £124,868 for all removed discounts at full rate Band A properties. The council receives 15% of Council Tax collected so Burnley's proportion of this would be £18,730.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

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

POLICY IMPLICATIONS

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

DETAILS OF CONSULTATION

48. None

BACKGROUND PAPERS

49. Annual Fraud Indicator 2023 (Crowe, Peters & Peters and University of Portsmouth)
[Annual Fraud Indicator | Crowe UK](#)
50. The Financial Cost of Fraud 2021
<https://www.crowe.com/uk/insights/financial-cost-fraud-data-2021>
51. Fraudscape 2023 6 month update (CIFAS)
[Fraudscape 2023 - Cifas](#)
52. Cyber Security Breaches Survey 2023 (Department for Science, Innovation and Technology)
[Cyber security breaches survey 2023 - GOV.UK \(www.gov.uk\)](#)
53. Tackling fraud and corruption against government 2023 (National Audit Office)
[Tackling fraud and corruption against government - National Audit Office \(NAO\) report](#)
54. Tackling fraud in the public sector - a local government perspective 2020 (Perpetuity Research & Consultancy International (PRCI) Ltd)
[Microsoft Word - CIPFA Final Report March 2020.docx \(perpetuityresearch.com\)](#)

FURTHER INFORMATION

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