

Fraud Risk Assessment

REPORT TO AUDIT AND STANDARDS COMMITTEE



DATE	16/01/2019
PORTFOLIO	Resources and Performance Management
REPORT AUTHOR	Salma Hussain
TEL NO	01282 425011 ext 3152
EMAIL	salmahussain@burnley.gov.uk

PURPOSE

1. To inform Members of the current fraud trends that affect 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 publicly published fraud reports are; CIPFA's Fraud and Corruption Tracker (CFaCT) report 2017 and 2018 and the University of Portsmouth's Centre for Counter Fraud Studies 2017 'Annual Fraud Indicator report'.
6. According to the Fraud and Corruption Tracker (CFaCT) the main types of fraud affecting the Public Sector remain the same as reported in previous years: Council Tax, Housing Benefit and Housing Tenancy. The largest growing area is business rates fraud.
7. The Annual Fraud Indicator 2017 report states that the percentage of fraud within local government (excluding benefits) has increased from last year's report of £7.3 billion to £7.8 billion

Council Tax & Housing Benefit

8. Housing Benefit and Council Tax Reduction fraud continues to be a problem at a national level with estimated fraud rates at 4.04% and 1.22% respectively, according to the 2017

Annual Fraud Indicator.

9. During 2017/18 the Council paid £31m in Housing Benefit (HB) and £7.6m in Council Tax Support (CTS). Using the above fraud rates, this potentially means the amount fraudulently claimed could be £1.26m of HB and £92.8k of CTS.
10. 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.
11. Over the previous 12 months there were 4 referrals to the Single Fraud Investigation Service (SFIS) and 13 requests for information from the SFIS and £800k of Housing Benefit has been identified as overpaid.
12. The Council has been undergoing a transfer of Housing Benefit cases to Universal Credit. This will act to reduce the impact of Housing Benefit Fraud.

Business Rates

13. The largest growing area identified in this year's CFaCT's survey is business rates fraud. Business rate fraud can include the falsification of circumstances to gain exemptions and discounts.
14. To mitigate this risk, empty properties are examined by area on a rota-based system or on request of the Business Rates Officer. Websites such as the National Heritage and the Charity Commission are checked to ensure that businesses are entitled to the Mandatory Charity discounts. Discretionary charitable relief can only be approved by the Head of Finance and Property Services.

Housing Tenancy Fraud

15. Tenancy fraud continues to be a national issue but 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.
16. 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

17. In last year's CFaCT survey procurement was seen as one of the greatest areas of fraud risk and this remains the same for 2017/18. As per the CFaCT survey, the number of fraud has decreased from 197 prevented or detected procurement frauds with an estimated value of £6.2m to 142 estimated fraudulent cases with an estimated value of £5.2m.
18. The Annual Fraud Indicator 2017 has calculated the fraud loss rate as 4.76%. The Council has approximately £23.7m in its 2018/19 budget to purchase goods, materials and services. If using the fraud loss rate against the budgeted amount, this amounts to a

cost of £1.1m.

19. To mitigate the risk, the Council has 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.

Insurance Fraud

20. This fraud includes any false insurance claim made against an organisation or an organisation's insurer.
21. Insurance claims are dealt with on our behalf by Pendle Borough Council. Any letters of claim are sent to them to deal with and they liaise with the insurers. Our insurers (Zurich) cross check claimants to see if they have claimed before and are also part of an anti-fraud network with other insurers.

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, obtaining supporting documentation and reporting to committee.

Cyber Risk

24. Cyber based frauds presents both new methods of committing fraud and new fraud opportunities. This poses a growing challenge to a sector becoming more digital in terms of service delivery.
25. Viruses and 'phishing' e-mails represent the most common. Phishing e-mails are attempts to gain personal details of users, this is commonly bank details but can include passwords etc. Most automated attempts are non-specific and are automatically blocked by the Council's systems. There are also 'Ransomware' attacks in which an attempt is made to extort monies for un-encrypting infected files.
26. There are various controls in place to reduce the risk of cyber-crime. Controls include network security, anti-malware defences, various policies, managing user privileges, training/ phishing exercises undertaken by staff, etc.

Organised Crime

27. Organised crime often involves complicated and large scale fraudulent activity which crosses to more than area such as insurance claims, business rates, procurement, etc. The CIPFA CFaCT 2017/18 survey identified 56 cases of serious and organised crime which was over double the figures reported in 2016/17, however 93% of these cases were reported by respondents from metropolitan unitaries. As seen above, various arrangements are in place to reduce the risk of fraudulent activity taking place.

National Anti-Fraud Network (NAFN)

28. The Council is a member of NAFN. They provide data and intelligence services supporting members in protecting the public purse from fraud, abuse and error.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

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

POLICY IMPLICATIONS

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

DETAILS OF CONSULTATION

31. None

BACKGROUND PAPERS

32. CIPFA Fraud and Corruption Tracker 2017 report and 2018 report

<http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker>

33. Annual Fraud Indicator 2017

<https://www.experian.co.uk/assets/identity-and-fraud/annual-fraud-indicator-report-2017.pdf>

34. National Cyber Security Strategy 2016-2021

<https://www.gov.uk/government/publications/national-cyber-security-strategy-2016-to-2021>

FURTHER INFORMATION

PLEASE CONTACT:

Salma Hussain ext 3152

ALSO:

Ian Evenett ext 7175