

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 notes the current fraud trends that affects the public sector.

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; Tackling First Party Fraud (from WPI Economics), CIPFA's Fraud and Corruption Tracker (CFaCT) report 2018 and 2019.
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, Business Rates, Housing Benefit and Housing Tenancy.

Council Tax

7. Council Tax has continued to be the largest area of identified fraud over the last 3 years. 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). The area that has grown the most in the last year is the single person discount (SPD) fraud, which

represents 62.2% of the identified instances of fraud with an estimated value of £19.4m., according to the CFaCT report 2019.

8. Last year, the National Fraud Initiative SPD matches were reviewed, via Liberata, where focus was on cases which had been flagged up after doing an initial review.

Housing Benefit & Council Tax Support

9. During 2018/19 the Council paid £27.2m in Housing Benefit (HB) and £8.1m in Council Tax Support (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. From October 2018 to June 2019, there have been 15 referrals to the Single Fraud Investigation Service (SFIS). Over the previous 12 months, there have been 9 requests for information from the SFIS and £489k of Housing Benefit has been identified as overpaid.

Business Rates

12. This year's CFaCT's survey shows that business rates fraud continues to increase. Business rate fraud can include the falsification of circumstances to gain exemptions and discounts.
13. 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 discount. Discretionary relief can only be approved by the Head of Finance and Property Services.
14. Destin Solutions' Small Business Rate Relief comparison tool is currently being trialled. This tool is a central database which pools together all ratepayer data published individually by each Local Authority. Checks can be made to ensure businesses claiming small business rates relief are not operating from multiple properties in other areas. A condition of obtaining small business rates relief is that only one property is occupied.

Housing Tenancy Fraud

15. Nationally there is a downward trend in the number of tenancy fraud 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.
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. Procurement continues, for the third year in a row, to be one of the greatest areas of fraud risk. As per the CFaCT survey, the number of frauds has decreased from 142 prevented or detected procurement frauds with an estimated value of £5.2m to 125 estimated fraudulent cases with an estimated value of £20.3m. The estimated value has increased significantly as it is mainly attributable to one organisation and shows the scope for fraud in this area. As Councils undertake large value infrastructure and regeneration projects, when procurement fraud does occur, the sums can be significant.
18. 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 (Zurich) log all claims on a national database and cross check claimants to see if they have claimed before. Zurich are part of an anti-fraud network with other insurers. This data set was dropped from the NFI for 2018/19.

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. This a particular issue for Councils with a Social Services function.
23. Various types of grants awarded by the Council were examined. Controls included procedural notes, separation of duties and obtaining supporting documentation.

Recruitment Fraud

24. 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.
25. 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.
26. 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.

27. 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

28. 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.
29. Notifications are issued automatically if changes are made employee details on the HR21 system.
30. A monthly audit is carried out by HR staff in Liberata to ensure PIs are met. The 2 PIs relate to accuracy of the data and the timeliness of updating the information.

Cyber Risk

31. Nationally in 2015/16 the costs of cybercrime against individuals (England and Wales) were an estimated £1.1bn. In 2016 the estimated cost for British businesses was £29.1bn. In Lancashire the Action Fraud site reports that 88% of fraud was cyber enabled.
(https://data.actionfraud.police.uk/cms/wp-content/uploads/2019/06/Lancashire_fraud-2019.pdf). Although there were only 373 reported cyber crimes of which 48 were from businesses.
32. The Council is under regular attack from various methods of fraud through its computer systems, mobile systems and cyber enabled services. Email fraud is a constant threat and the Council uses a scanning approach to block e-mails containing viruses or attempts to gain credentials.
33. There are various defenses which the council employs to protect its assets from malicious attack for example firewalls, scanning software, penetration testing etc. IT has a policy of ensuring that all software is up to date to remove identified weaknesses (patching). One of the most important elements in defense against cyber crime is awareness, so the council has various approaches to increase awareness and training for staff.
34. The latest estimates of the costs of Cyber Fraud, the costs to restore a website defacement is about £1,200. A malware infection costs about £57,000. In addition, there is a large reputational impact of these events.

Organised Crime

35. 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 2018/19 survey identified 24 cases of serious and organised crime which was a decrease from the 56 cases reported in 2017/18. 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.

NAFN (National Anti-Fraud Network)

36. 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)

37. This is a national matching exercise which is run by the Cabinet Office and the Council pays £1,150 per year. It is a statutory requirement for all local authorities to provide data; this data is then matched with itself and with other authority's data to provide matches which requires further investigation. Some central government provide data, and this is matched to provide further results.
38. There are two main data exercises; one is called the national exercise and is run every two years and the other looks at Council Tax single person discount. In the national exercise, the Council has to provide data sets for; Housing Benefit, Council Tax Support, Creditors, Payroll, Licences and Housing Waiting Lists in October and the matches become available in February. For the 2018 exercise, this generated 1,523 matches. The NFI has classified most matches with a risk assessment and approximately 15% of the reported risks were ranked as High. This ranking is based on the quality and value of the match. See Appendix 1.
39. The SPD exercise takes the data for Council Tax and the Electoral Register and matches these every year around December and the results are immediately available. As this is a yearly process the matching occurs in December 2018 and 2019. In December 2018 this generated 894 matches. Two later phases generated another 4,659 matches to non-Election Data.
40. The matches are worked on by officers across the Council who check the data to seek out a reason for the match, this can involve querying other authorities and responding to their queries.
41. The outcome of the reviews has meant that although no cases of fraud were identified there were 9 cases of error which had a total value of £2,834. In addition, there were 196 matches which resulted in the cancelation of SPD.
42. There are constant improvements in the process which this time included matching to HMRC data. Unfortunately, the quality of these matches is not high. The HMRC gather data from employers and employers contact addresses for their payroll are not always up to date. This data set has generated a lot of matches which when investigated are not useful and as the data is not the council's it cannot correct this data.
43. The Council has to ensure that all data subjects are aware of the possibility of using data in this way, and it has to ensure that the data is used only for the purposes it is provided. This is declared in the Councils Privacy Notice and this links to the NFI's Privacy Notice which provides more details.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

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

POLICY IMPLICATIONS

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

DETAILS OF CONSULTATION

46. None

BACKGROUND PAPERS

47. CIPFA Fraud and Corruption Tracker 2018 and 2019 report

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

48. WPI Economics – Tackling First-Party Fraud

[https://www.cifas.org.uk/secure/contentPORT/uploads/documents/WPI%20Economics%20-%20tackling%20first-party%20fraud%20-%20Final%20-%20June%202019%20\(002\).pdf](https://www.cifas.org.uk/secure/contentPORT/uploads/documents/WPI%20Economics%20-%20tackling%20first-party%20fraud%20-%20Final%20-%20June%202019%20(002).pdf)

49. Action Fraud

https://data.actionfraud.police.uk/cms/wp-content/uploads/2019/06/Lancashire_fraud-2019.pdf

50. National Cyber Security Strategy 2016-2021

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

APPENDICES

51. Appendix 1 – NFI Summary

FURTHER INFORMATION

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