

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; Crowe - Financial Cost of Fraud 2021 and Chartered Institute of Public Finance and Accountancy (CIPFA) - Fraud and Corruption Tracker Report 2020.
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 4 years. 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).
8. The area that has grown in the last year is the single person discount (SPD) fraud, which represents the identified instances of fraud with an estimated national value of £28.9m, according to the CFaCT report 2020. The estimated number of cases proven to be fraudulent have decreased but the estimated value has increased by £9.5m from the previous year.
9. 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. Social media accounts and internet searches were used to obtain background information. Neighbouring authorities were liaised with to verify residence or occupancy. The outcomes of this exercise are in Appendix 1. The Council is processing this year's matches.
10. As the Council has increased 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

11. During 2020/21 the Council paid £24.8m in Housing Benefit (HB) and £9.2m in Council Tax Support (CTS).
12. 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.
13. Over the previous 12 months, there have been 7 referrals made to the Single Fraud Investigation Service (SFIS) and there has been 1 request for information from the SFIS. From October 2020 to September 2021 £264k of Housing Benefit has been identified as overpaid.

Business Rates

14. This year's CFaCT's survey shows that business rates fraud has decreased slightly but this was still recorded as the third highest fraud risk area on a national scale. Business rate fraud can include the falsification of circumstances to gain exemptions and discounts.
15. 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 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.

16. 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

17. Nationally there has been an increase 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.
18. 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

19. Procurement continues, for the fourth year in a row, to be one of the greatest areas of fraud risk.
20. 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.
21. 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

22. This fraud includes any false insurance claim made against an organisation or an organisation's insurer.
23. 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 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. Our insurers are part of an anti-fraud network with other insurers.

Grant Fraud

24. 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 mandate and COVID19 grant fraud.
25. Various types of grants awarded by the Council were examined. Controls included procedural notes, separation of duties and obtaining supporting documentation.

26. There are controls in place in regard to bank mandate fraud.
27. Like last year this year the Council were provided with substantial funds to assist Businesses which were impacted by various COVID related restrictions/regulations. A range of controls were introduced to reduce the risk of fraud, and this included applicant declarations, separation of duties to check and verify grants, authorisation, separation of duties for payment of grants, Experian checks, checks in service records, physical visits, staff training, post payment checks, risk register and NAFN (National Anti-Fraud Network) notifications.

Recruitment Fraud

28. 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.
29. 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.
30. 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.
31. 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

32. 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.
33. Notifications are issued automatically if changes are made employee details on the establishment/payroll system.
34. A monthly audit is carried out by HR staff in Liberata to ensure performance indicators are met.

Cyber Risk

35. The 2021 Financial Cost of Fraud report by Crowe estimates the cost of fraud to the UK is between £137bn - £190bn a year.
36. The council has significantly increased its dependency on information technology to enable working from home, this increases the impact of this risk.
37. 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.

38. 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.
39. 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.

Organised Crime

40. Organised crime often involves complicated and large-scale fraudulent activity which crosses to more than 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.
41. The Council cooperates with national agencies such as Action Fraud and the Council's arrangements to prevent money laundering are important in this area.

NAFN (National Anti-Fraud Network)

42. 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)

43. 2020/21 was a one of the two yearly main National Fraud Initiatives exercises. Last year, we provided data from several of our main systems, 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. Please see Appendix 1.
44. This year, an exercise will be carried out for Single Persons Discount and Covid19 Grants.

Covid Related Expenditure/ Systems of control Changes

45. The 2021 Financial Cost of Fraud report states that due to COVID-19 there has been an increase of 19.8% in fraud in England and Wales. Amongst this were increased phishing and payment frauds for COVID-19 services which were provided by the NHS.
46. The new requirements of operating under pandemic arrangements did lead to changes in internal control processes for the delivery of these services. Changes to some services will have removed the fraud risks from some areas, but the introduction of new services will have also created new risks for example the Business Grants scheme, and isolation payments.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

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

POLICY IMPLICATIONS

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

DETAILS OF CONSULTATION

49. None

BACKGROUND PAPERS

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

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

FURTHER INFORMATION

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