Fraud Risk Assessment

REPORT TO AUDIT AND STANDARDS COMMITTEE

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HOLD-TO-THE-TRUTH

DATE	**10/01/2018**
PORTFOLIO	**Resources and Performance Management**
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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, the University of Portsmouth's Centre for Counter Fraud Studies 2016 Annual Fraud Indicator report and Protecting the English Public Purse 2016 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.

7. The report, The Financial Cost of Fraud 2017, *Crow Clark Whitehill,* suggests that the average loss to fraud is 5.85%

   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 1.78% and 1.22% respectively, according to the 2016 Annual Fraud Indicator.
9. During 2016/17 the Council paid £34m in Housing Benefit (HB) and £7.8m in Council Tax Support (CTS), using the above figures £605k of HB and £95k of CTS could be being claimed fraudulently.

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 32 referrals to the Single Fraud Investigation Service (SFIS) and 212 requests for information from the SFIS and £59,000 of Housing Benefit and £6,600 of Council Tax Support has been identified as overpaid.

12. Work is currently underway on the NFI exercise, but to date there have been 150 matches totalling £31,500

Housing Tenancy Fraud

13. As reported previously, 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.

14. The Council works closely with Registered Social Landlords and 'B-with-Us' (a Pennine Lancashire choice based letting service) which can also help reduce the risk of tenancy fraud. The details of this waiting list were included in the NFI data sets for 2016/17.

Procurement

15. Procurement fraud is still considerable fraud risk due to the significant sums of money involved.

16. Nationally in 2014/15 60 cases were identified, in 2015/16 this had risen to 353. CFaCT has estimated that this year there will be as many as 623 cases totalling £6.3m, meaning the average fraud could cost around £10,000.

17. The Council is expected to place around £14m worth of orders this year through the procurement system but the built in approval system is a significant control in reducing the risk of fraud in this area.

18. Because of the high returns corruption in procurement is a significant factor. In 2016 the government published a progress report on the 2014 UK Corruption Plan. Part of this plan is the organised crime pilot reported below and the Counter fraud strategy for local government.

Personation Fraud

19. Personation fraud is where an officer of an organisation is emailed by a fraudster purporting to be a senior finance officer or CEO who states that they need to quickly transfer money to a certain bank account for a specific reason which they carry out only to find that the money has been sent to a fraudster's bank account.

20. In the seven months to January 2016, 994 reports of personation fraud had been made to Action Fraud.

21. The Council and Burnley Leisure Trust have both been subject to personation fraud attempts in recent months but due to the vigilance of officers no payments were made.

Cyber Risk

22. Cyber based frauds presents both new methods of committing fraud and new fraud opportunities. This is probably the most frequently attempted fraud against the Council as automation allows thousands of attempts a day.

23. 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.

24. Increasingly there are trends more complex attempts of fraud, where the culprit has taken time to check the council's details and uses this to attempt to get the Council to make a payment into a bank account which is quickly cleared. Common examples of this are CEO fraud, as above and Mandate fraud, where correspondence is received purporting to come from a large Council creditor saying that they have changed their bank details.

25. An awareness session on Cyber fraud was provided to staff as part of Colleague conferences in 2017.

Organised Crime

26. The government has recently run a pilot exercise on the exposure of links between the public sector and organised crime. This involved the matching of creditors and other data to serious and organised crime data. For district councils it identified a limited risk of exposure, and these were in a couple of specific sectors of procurement. Transport services, waste, housing and low levels of spend were included in these sectors. The best response for the council in these areas is to follow robust procurement processes.

Election fraud

27. In January 2017 the government's anti-corruption tsar Sir Eric Pickles published his report on Election Fraud with 50 recommendations including
    - clamping down on postal vote 'harvesting' by political activists
    - piloting some form of identification at polling stations for elections in 2018
    - action to tackle the links between electoral fraud and immigration fraud
    - stronger checks and balances against municipal corruption
    The government is considering these recommendations.

28. The Electoral Commission's analysis of reported fraud in elections in 2016 indicates that there were 260 cases alleged electoral fraud recorded by the Police, almost half the total reported in 2015 (481). 138 cases had no further action and 79 were resolved locally. Of the remaining cases 2 resulted in court proceedings.

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
    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
35. UK Anti-corruption plan progress update
    https://www.gov.uk/government/publications/uk-anti-corruption-plan-progress-update
36. Securing the ballot: Report of Sir Eric Pickles' review into electoral fraud.
    https://www.gov.uk/government/publications/securing-the-ballot-review-into-electoral-fraud
37. Electoral Commissions Fraud Analysis 2016
    https://www.electoralcommission.org.uk/__data/assets/pdf_file/0020/223184/Fraud-allegations-data-report-2016.pdf

FURTHER INFORMATION	
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