

Fraud Risk Assessment

REPORT TO AUDIT AND STANDARDS COMMITTEE



DATE	11/01/2017
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 is 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. There are current two publicly published fraud reports; CIPFA's Fraud and Corruption Tracker (CFaCT) report and the University of Portsmouth's Centre for Counter Fraud Studies 2016 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.
- Council Tax & Housing Benefit**
7. 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.
 8. Council Tax Support amounted to £7.8m in 2015/16, using the figure above around £95,000 could be subject to fraudulent claims.
 9. The Council paid £35m in Housing Benefit in 2015/16. Although the Council is no longer responsible for the investigation of HB fraud it is responsible for 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.
 10. It is not possible to state how much is currently being recovered as it is recovered through

the debtors system, however using the figure above, approximately £620,000 could be being claimed fraudulently.

11. The output from the current National Fraud Initiative exercise is due later this month, however about £34.6K of Single Person Discount was cancelled on NFI matches from 2015/16.

Housing Tenancy Fraud

12. 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.
13. 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.

Procurement

14. Procurement fraud is still considerable fraud risk due to the significant sums of money involved.
15. 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.
16. The Council is expected to place around £18.5m worth of online orders this year but the built in approval system is a significant control in reducing the risk of fraud in this area.
17. 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. corruption

CEO Fraud

18. CEO 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.
19. In the seven months to January 2016, 994 reports of CEO fraud had been made to Action Fraud.
20. The Council and Burnley Leisure Trust have both been subject to CEO fraud attempts in recent months but due to the vigilance of officers no payments were made.

Cyber Risk

21. 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.
22. 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.
23. 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.

Organised Crime

24. 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

25. During the year 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
- action to tackle the links between electoral fraud and immigration fraud
- stronger checks and balances against municipal corruption

The government is considering these recommendations.

26. The Electoral Commission's analysis of reported fraud in elections in 2015 indicates that there were 481 cases alleged electoral fraud recorded by the Police in the 9,757 contested seats. 312 cases had no further action and 122 were resolved locally. Of the remaining cases 4 resulted in court proceedings.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

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

POLICY IMPLICATIONS

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

DETAILS OF CONSULTATION

BACKGROUND PAPERS

29. CIPFA Fraud and Corruption Tracker

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

30. Annual Fraud Indicator

<http://www.port.ac.uk/media/contacts-and-departments/icjs/ccfs/Annual-Fraud-Indicator-2016.pdf>

31. National Cyber Security Strategy 2016-2021

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

32. UK Anti-corruption plan progress update

<https://www.gov.uk/government/publications/uk-anti-corruption-plan-progress-update>

- 33. 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>
- 34. Electoral Commissions Fraud Analysis 2015
http://www.electoralcommission.org.uk/_data/assets/pdf_file/0011/198533/Fraud-allegations-data-report-2015.pdf

FURTHER INFORMATION	
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