

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Report title	Annual Anti-Fraud Report
Chief Executive or Director	Strategic Director of Finance, Governance and Support
Date	26 September 2018
Purpose of the report	To update Members on the impact of fraud on the UK by summarising the main national fraud risks facing the public sector. To consider the potential impact of fraud on Middlesbrough Council and its residents, the existing counter fraud arrangements in place and the further action that could be taken to safeguard the Council from fraud and loss. To report on the number and type of investigations undertaken by Tees Valley Audit and Assurance (TVAAS) since the previous report to this Committee on Counter Fraud activity in December 2017. To present Members with the revised Anti-Fraud, Bribery & Corruption Policy.
Summary of the report	Preventing and detecting fraud and error is key to minimising loss and ensuring the effective use of public funds for the benefit of residents. With ongoing pressure to cut costs, reducing loss of public funds cause by fraud and error is an opportunity to make potentially significant savings. Although it is difficult to quantify the complete losses as a result of fraud, national fraud indicator reports (University of Portsmouth/Experian/CCW) suggest that annual UK fraud could be as high as £190 billion with local government related fraud accounting for £7.8 billion of this figure.
If this is a confidential report, which category of exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?	Not applicable.
Decision(s) asked for	That Corporate Affairs and Audit Committee Members are requested to note and comment upon the report and highlight any concerns or areas where additional resource or focus should be given to fraud prevention and that Members note and comment on and confirm acceptance of the updated Anti-Fraud, Bribery and Corruption Policy.
Impact of decision(s)	Agreement to note the audit findings or identify where additional assurance is required will help the Committee

	perform its role. Internal audit work makes a contribution towards achieving the Mayor's Vision and Strategic Plan by identifying any areas where the Council is most susceptible to fraud and recommending remedial action as appropriate in order to minimise the risk of losses.
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What is the purpose of this report?

1. To update Members on the impact of fraud on the UK by summarising the main national fraud risks facing the public sector; to consider the potential impact of fraud on Middlesbrough Council and its residents, the existing counter fraud arrangements in place and the further action that could be taken to safeguard the Council from fraud and loss.
2. The report also summarises the number and type of investigations undertaken by Tees Valley Audit and Assurance (TVAAS) since the previous report to this Committee on Counter Fraud activity in December 2017 and presents Members with the revised Anti-Fraud, Bribery & Corruption Policy.

Why is this report necessary?

3. Since the closure of the Audit Commission, local authorities are self-regulating in respect to financial risk and fraud and when responsibility for benefit fraud investigation moved from local authorities to the Department for Work and Pensions in 2015/16, many local authorities lost their specialist fraud investigators. Outside of London, few councils have maintained specific counter fraud staff and reduced resources has meant that local authorities have limited capacity to undertake proactive counter fraud exercises.
4. The Government has published a new United Kingdom Anti-Corruption Strategy 2017-22 which sets out its approach to tackling corruption and is aimed at increasing prosperity, improving transparency and reducing the risk of corruption thereby improving citizens' confidence and trust in public services whether delivered in house or outsourced. The strategy identifies six priorities that will be the focus of its efforts to 2022:
 - Reduce the insider threat in high risk domestic sectors;
 - Strengthen the integrity of the UK as an international financial centre;
 - Promote integrity across the public and private sectors;
 - Reduce corruption in public procurement and grants;
 - Improve the business environment globally;
 - Work with other countries to combat corruption.
5. The Council already has an Anti- Fraud, Bribery & Corruption Policy in place and this has been reviewed and is included at **Appendix 1**. The Council also has a

Whistleblowing Policy which was reviewed last year and no significant changes to the current version are required at present.

6. CIPFA's Fraud and Corruption Tracker Report 2017 identifies the main areas of fraud risk for local government as being relating to procurement, disabled parking, council tax (highest in terms of volume of cases), adult social care payments and housing (highest in terms of value of cases). Cyber crime poses an increasing risk as service delivery becomes more digital and CIPFA recommends that organisations ensure that cyber security is integral to any new strategy or policy decision. The Audit & Assurance Team maintains a register of the main fraud risks to the Council which has contributed to the content of the annual audit plan for each year. A summary of the fraud risk register was reported to Members in December 2017 as part of the annual counter fraud report. Population of this register is an ongoing process to ensure that it reflects the main fraud risk areas to local government. An extract of the current version of the register is included at **Appendix 2**. It should be highlighted that the fraud risks highlighted in **Appendix 2** are fraud risks that apply to most if not all local authorities and that there is no evidence to suggest that Middlesbrough Council's exposure to these risks is worse than other authorities. Although there is no room for complacency, the consistently high assurance levels reported by internal audit in relation to the financial/material systems suggests a robust control framework.

7. Middlesbrough Council has the following anti-fraud arrangements in place:
 - Whistleblowing Policy;
 - Anti-Fraud, Bribery and Corruption Policy;
 - Anti Money Laundering Policy;
 - Information on the standards expected of employees including general conduct, disclosure of information, undertaking private paid work, private unpaid work, the interest of employees in contracts, writing of books, political neutrality etc. Specific reference to the Social Media Policy and the Gifts and Hospitality Policy;
 - Procedures for declaring gifts, hospitality and interests;
 - Internal audit reviews of the control environment;
 - Ensuring that the annual audit plan includes time to focus on the significant fraud risks facing the Council;
 - Internal audit plan which includes contingency allocation for investigating alleged fraudulent activity;
 - Annual fraud and loss risk self-assessment;
 - Benefit fraud investigations carried out by the Single Fraud Investigation Service;
 - National Fraud Initiative (NFI) data matching exercise (please refer to paragraphs 8 to 10);
 - Communications with other local authorities and bodies e.g. TVAAS circulate fraud alerts to other regional internal audit teams and notify National Action Against Fraud Network (NAFN) where appropriate;
 - Allocated responsibility for fraud to one audit and assurance officer to develop as a specialism;
 - Monitoring the number of recommendations being made relating to anti-fraud controls to identify trends in both control weaknesses and in service areas.

Audit work carried out in 2017/18 resulted in 25 audit recommendations aimed at improving the anti-fraud environment (2016/17 – 18; 2015/16 21 and 2014/15 – 24).

- As TVAAS provides audit services to both Middlesbrough and Redcar and Cleveland Borough Councils, it has been possible to share intelligence regarding possible risk areas. Since the Data Protection Reforms, information from other local authorities can only be obtained by completing a Request for Disclosure Form.
8. The NFI is a data matching exercise, via a secure website, that compares information held by and between approximately 1,300 organisations including councils, the Police, hospitals and almost 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments. The NFI November 2016 report reveals that the NFI has helped trace almost £198 million in fraud, errors and overpayments in England. The purpose of the exercise is to identify potentially fraudulent claims, errors and overpayments. Each of these organisations submits various data sets relating to those services where it is anticipated that fraud and error is most likely to occur, for example, housing benefits, council tax (single person discounts), payroll, insurance claimants, private supported care home residents, licenses (taxi, personal alcohol) electoral roll, trade creditors payments, transport passes and permits (blue badge, residents parking permits and concessionary travel passes). Data has to be submitted according to specified timescales.
 9. Once the data has been submitted, the matching process is undertaken and it is this process that results in 'matches'. The 'matches' relevant to each public body are passed back to the organisation for further investigation to either clear the 'match' i.e. confirm that the match is acceptable or take action in response to a potential fraud or error. One example of a 'match' could be a person in receipt of pension but who, according to other data, is deceased. This 'match' would require further investigation by the organisation paying the pension. In the UK, the NFI exercise has produced significant results, identifying £1.39 billion of fraud, overpayment and error since it started in 1996.
 10. The data matching results for the Council from the 2016/17 NFI initiative resulted in 112 reports which identified 12,086 matches with 3,120 matches 'recommended' for investigation, within a variety of service areas. In total, 3,120 matches have been processed resulting in the identification of 11 errors and nil frauds. A total of £38,193 of benefit (Housing benefit - £17,316 and Council Tax Reduction Scheme £20,877) was overpaid of which all is being recovered either from the claimant or the landlord. No frauds were identified within the remaining data set areas.
 11. Incidence of Suspected Fraud and/or Wrongdoing at Middlesbrough Council - The investigation of housing benefit and tax credit fraud is carried out by the Department of Work and Pensions (DWP) following the introduction of the Single Fraud Investigation Service (SFIS). The DWP now conducts single welfare benefit fraud investigations to one set of policies and procedures.
 12. During the financial year 2017/18, the Whistleblowing and Special Investigations Log records a number of issues that have been raised with the Audit & Assurance Service during the year. Most concerns did not relate to suspected fraud or

corruption but were highlighting alleged process or governance issues. Where appropriate, Internal Audit has or will investigate any issues as part of planned audit work and the findings will be reported via the usual progress reports to this Committee. Any issues that have yet to be investigated and which fall within internal audit's remit, will be incorporated into audit work throughout 2018/19 (if not already investigated by external audit). All concerns raised during the year have been raised with Audit & Assurance directly as opposed to via the whistleblowing hotline. Towards the end of the year, Audit & Assurance officers were also involved in an investigation into a fraudulent use of public funds by an employee. That investigation is now subject to criminal proceedings.

What decision(s) are being asked for?

13. Members are requested to note and comment upon the annual anti-fraud report and the revised Anti-Fraud, Bribery & Corruption Policy and Procedures.

Why is this being recommended?

14. The total estimated fraud losses for UK local government amounted to £7.8bn. The prevention and detection of fraud is therefore crucial to all councils. Each pound lost to fraud represents a loss to the public purse and reduces the ability of local government bodies to provide services to people who need them. Fraud is never a victimless crime. A strong anti-fraud framework that minimises loss through fraud or error could mean that the Council has more resource to focus on providing services for people with greatest needs, which is fundamental to tackling inequality and poverty.

Other potential decisions and why these have not been recommended

15. The report is a factual summary of the counter fraud arrangements in place at the Council. As a result there are no options available except to note the content of this report, the proposed additional actions to be taken and to identify where additional assurance is required.

Impact(s) of recommended decision(s)

16. Agreement to note the audit findings or identify where additional assurance is required will help the Committee perform its role. Effective anti-fraud arrangements makes a contribution towards achieving the Mayor's Vision and Strategic Plan by identifying any potential control issues which may obstruct that achievement.

Legal

17. The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). The Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.

18. Legal requirements have been taken into account when reviewing the Anti-Fraud, Bribery and Corruption Policy.

The Mayor's Vision for Middlesbrough

19. Internal Audit assists management in delivering the Mayor's Vision by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.

Policy Framework

20. The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Wards

21. There are no specific financial or ward implications arising from the Annual Anti-Fraud Report.

Equality and Diversity

22. There are no direct implications from this report on equality and diversity although aspects of anti-fraud work may involve a review of issues affecting equality and diversity.

Risk

23. Internal audit and assurance work is aimed at providing assurance that the key fraud risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets. The current most likely fraud risks to the Council are summarised in **Appendix 2**.

Actions to be taken to implement the decision(s)

24. Any requests for additional assurance or clarification by Members of the Committee will be responded to accordingly.

Appendices

Appendix 1 – Anti-Fraud, Bribery & Corruption Policy and Procedures

Appendix 2 – Fraud & Loss Risk Register

Background papers

25. No background papers other than published works were used in the preparation of this report.

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