

Report of:	Audit & Assurance Manager, Tees Valley Audit & Assurance Services
Submitted to:	Corporate Affairs and Audit Committee 26 September 2019
Subject:	Annual Anti Fraud Report

Summary

Proposed decision(s)
It is recommended that Members of the Corporate Affairs and Audit Committee note the annual anti fraud report and identify any areas where additional assurance is required by the Committee.

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Information	No	No	No

Contribution to delivery of the 2018-22 Strategic Plan		
Business Imperatives	Physical Regeneration	Social Regeneration
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 caused by fraud and error is an opportunity to make potentially significant savings so that the effective use of resources can be maximised.	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 caused by fraud and error is an opportunity to make potentially significant savings so that the effective use of resources can be maximised.	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 caused by fraud and error is an opportunity to make potentially significant savings so that the effective use of resources can be maximised.

Ward(s) affected
None.

What is the purpose of this report?

1. The purpose of the report is to update Members on the impact of fraud on the UK by summarising the main national fraud risks facing the public sector. The report also considers the potential impact of these national fraud risks on Middlesbrough Council and its residents, the existing counter fraud arrangements in place at the Council and any further action that could be taken to safeguard the Council from fraud and loss. The report outlines 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 September 2018.

Why does this report require a Member decision?

2. 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.
3. 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 caused by fraud and error is an opportunity to make potentially significant savings. Fraud is never a victimless crime as each pound lost to fraud represents a loss to the public purse and affects the public sector's ability to provide services.
4. Although it is difficult to quantify the complete losses caused by fraud, the Annual Fraud Indicator 2013 (which provides the last set of government sanctioned estimates), reports that fraud costs the public sector at least £20.6 billion annually of which £2.1 billion relates to local government.
5. 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.

Report Background

6. Fraud is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the intentional distortion of financial statements or other records by persons internal or external to the authority, which is carried out to conceal the misappropriation of assets or otherwise for gain, or to mislead or misrepresent.
7. Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person; or the failure to disclose an interest to enjoy financial or other pecuniary gain.
8. Bribery is the receiving or offering of undue reward to persons to influence their behaviour contrary to ordinary standards of integrity and honesty.
9. CIPFA's annual fraud and corruption tracker provides a national overview of all fraud, bribery and corruption activity across local authorities. The findings are based on the results of the annual survey into the levels and type of fraud and

corruption experienced by local authorities. The 2019 survey was underway at the time of this report however the 2018 results reported that the total estimated value of fraud detected or prevented by local authorities in 2017/18 was £302m, £34m less than the previous year. The number of frauds detected or prevented rose to 80,000 from the 75,000 cases found in 2016/17.

10. Nationally, the three highest areas of perceived fraud risk for 2017/18 were procurement, council tax single person discount and adult social care. The four main types of fraud (by volume) affecting local authorities related to council tax, housing, Blue Badge and business rates. A growing fraud risk for local authorities is business rates as the amount lost to business rates fraud across the country increased significantly from £4.3m in 2016/17 to £10.4m in 2017/18. Blue Badge fraud increased by £3m to an estimated value of £7.3m for national cases prevented/detected in 2017/18.
11. Due to concerns about the level of fraud within the public sector, in October 2018, the Government launched a framework for counter fraud activity across government departments and related organisations - the Government Counter Fraud Profession (GCFP). The government is investing in over 10,000 counter fraud specialists to tackle fraud within central government. The GCFP does not currently involve local authorities, but it may be expanded in the future.
12. As part of its anti-fraud framework, Middlesbrough Council has an anti fraud, bribery and corruption policy and a whistleblowing policy. Both policies have been in place for several years and are reviewed and updated to reflect changes in legislation and structure. Both policies have been reviewed this year and only minor changes are required and are therefore not attached to this report although can be provided if requested.

13. Fraud Risks

CIPFA's Fraud and Corruption Tracker Report 2018 identifies the main areas of fraud risk for local government as being relating to procurement, council tax discount and adult social care payments. 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 has previously been reported to Members in September 2018 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. A summary extract of the latest version of the register is included at **Appendix 1**.

14. 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;

- 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 15 to 17);
- 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;
- 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 2018/19 resulted in 15 audit recommendations aimed at improving the anti-fraud environment (2017/18 – 25; 2016/17 – 18; 2015/16 21 and 2014/15 – 24);
- Shared intelligence because of having a shared internal audit service working across two councils.

15. 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. In relation to blue badge misuse, the Council retained 13 badges during 2018/19 and has retained 7 badges so far during 2019/20.

16. During the financial year 2018/19, the Whistleblowing and Special Investigations Log records 13 issues that came to the attention of the Audit & Assurance Service during the year. Most of the issues however did not actually relate to fraud or corruption but were issues raised regarding information security, governance and process or which were more appropriately dealt with under the complaints or HR processes. Two issues were raised by different people which related to inappropriate charging for collection of waste and it is understood that an internal investigation was carried out. Another concern related to alleged malpractice in the Planning department although more detail/evidence outlining the reasons for those concerns was not submitted. One concern raised related to the use of consultants but again this was not a fraud but related to poor recruitment practice which has since been addressed. All other issues were either not fraud or corruption related or else were investigated via other processes (e.g. corporate complaints etc.) The format in which potential concerns were raised varied; only 2 used the whistleblowing hotline whilst the other matters were raised directly with staff on the Team or senior management.
17. None of the cases reported during the 2018/19 financial year have, so far, required Police involvement. One case that came to management's and internal audit's attention during the 2017/18 financial year concluded during the 2018/19 financial year and this case related to a section 17 payment fraud committed by a social worker. Due to the nature and severity of this fraud, the matter was reported to the Police and the outcome has been reported in the press. The social worker is no longer employed by the Council and received a suspended prison sentence; the Council will seek to recover the amount defrauded from the individual's pension. As

stated in the Council's Anti Fraud, Bribery & Corruption Policy, the Council has a zero tolerance approach to fraud and will involve the Police where appropriate and will seek to recover losses from the individual.

18. The NFI is a data matching exercise, via a secure website, that compares information held by and between approximately 1,200 participating organisations from the public and private sectors including government departments. This helps to identify potentially fraudulent claims, errors and overpayments. The latest NFI report covers the period from the 1st April 2016 to the 31st March 2018 and reveals that the NFI has enabled participating organisations to prevent and detect over £300 million fraud and error during this period 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 must be submitted according to specified timescales.
19. 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 £1.69 billion of fraud, overpayment and error since it started in 1996.
20. The data matching results for the Council from the 2018/19 NFI initiative resulted in 94 reports which identified 13,763 matches with 2,179 of those matches being recommended for investigation across a variety of service areas. In total, 836 matches have been processed so far with a further 37 in progress. This matching exercise to date has not resulted in identifying any errors or frauds although the remaining recommended matches will be checked over the forthcoming months and therefore it is possible that fraud or error may be identified following those checks.

What decision(s) are being asked for?

21. Members note on the Counter Fraud Report 2018/19 which outlines the impact of fraud on the UK by summarising the main national fraud risks facing the public sector and their potential impact on Middlesbrough Council.

Why is this being recommended?

22. The total estimated fraud losses for UK local government amounted to £2.1bn. 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. As set out in the Council's Anti Fraud, Bribery & Corruption Policy, the Council has a zero tolerance approach to fraud, bribery and corruption.

Other potential decisions and why these have not been recommended

23. The report is a factual summary of the counter fraud arrangements in place at the Council. 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)

24. Agreement to note the audit findings or identify where additional assurance is required will help the Committee perform its role. Effective anti-fraud arrangements contribute towards achieving strategic priorities by identifying any potential control issues which may obstruct that achievement.

Legal

25. 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.

26. Legal requirements have been considered when reviewing the Anti-Fraud, Bribery and Corruption Policy and Whistleblowing Policy.

Financial

27. 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 caused by fraud, the Annual Fraud Indicator 2013 (which provides the last set of government sanctioned estimates), reports that fraud costs the public sector at least £20.6 billion annually of which £2.1 billion relates to local government.

Policy Framework

28. 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.

Equality and Diversity

29. 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

30. 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 1**.

Actions to be taken to implement the decision(s)

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

Appendices

Appendix 1 – Fraud & Loss Risk Register (extract)

Background papers

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

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