

APPENDIX 1 - MIDDLESBROUGH COUNCIL - EXTRACT FROM FRAUD & LOSS RISK REGISTER 2019

The following risks are the key fraud risks as outlined in the annual CIPFA Fraud Tracker 2018. Those national risks have been assessed in terms of their risk to the Council

NB - Detail of the controls in place is limited for security/confidentiality reasons

Risk Title	Risk Description	Initial Evaluation				Controls & Comments	Residual Evaluation				Direction of Travel
		Total Impact	Likelihood	Gross Score	Rating		Total Impact	Likelihood	Residual Score	Rating	
Social Housing Fraud	Social housing fraud occurs when a home is occupied by someone who is either not legally entitled to be there, or obtained use of the property fraudulently. This deprives legitimate tenants access to affordable homes and has a direct impact on local people, their families and their communities. Housing and tenancy fraud takes several forms including: illegal subletting for profit; providing false information to gain a tenancy; wrongful tenancy assignment and succession; failing to use the property as the principal home; right to buy fraud. CIPFA Fraud & Corruption Tracker 2018 reports that the highest value of detected/prevented fraud was from investigations relating to housing fraud (£97.4 million). However, the overall value of RTB fraud is declining (£92 million in 2017/18 compared to £111.6 million in 2016/17). The value of illegal subletting fraud has also declined from £78.5 million in 2016/17 to £55.8 million in 2017/18. This is not a major direct fraud risk to the Council as it has limited housing stock.	Insignificant	Unlikely	2	Low	Middlesbrough Council does not have significant housing stock so the fraud risk is heavier on partners and the knock on effect of fraud in one area leading to support being required from another e.g. if a family is deprived of a home due to illegal activities then they are more likely to request alternative forms of assistance from the Council.	Insignificant	Unlikely	2	Low	No change
Bank Mandate Fraud	Mandate fraud is when someone attempts to change a direct debit, standing order or bank transfer mandate, by purporting to be a supplier/provider that the organisation makes regular payments to. CIPFA estimates that across the UK, mandate fraud has increased from 188 in 2015/16 to 325 in 2016/17. The 2017/18 report stated that there had been 257 cases of mandate fraud reported therefore a decrease on 2016/17.	Moderate	Likely	12	Medium	There are a number of effective controls in place to identify fraudulent attempts to divert payments from genuine suppliers and to validate any requests to change supplier details. The controls in place are also subject to periodic audit and assurance review.	Moderate	Unlikely	6	Low	No change
Blue Badge Fraud	Financially, misuse of parking concession entitlement is not a significant fraud risk but it can cause reputational damage. Fraud from the misuse of the Blue Badge had been decreasing since CIPFA started their annual survey but this time, there has been an increase of over 1000 cases between 2016/17 and 2018/19. In 2017/18, 49% of the blue badge fraud cases were reported by counties. Blue badge misuse is often an indicator of other benefit related fraud. The 2017/18 CIPFA report states that there were 14,714 cases reported nationally that year with an associated value of £7.3 million. Middlesbrough Council retained 13 badges during 2018/19 and has retained 7 badges so far during 2019/20.	Moderate	Almost Certain	15	Medium	The Council participates in the National Fraud Initiative data matching exercise and Council staff carry out various checks on the validity of blue badges. All blue badge applicants must provide proof of identification and of residency.	Minor	Likely	8	Low	Increase
Business Rates Fraud	Nationally, business rates can be politically sensitive given the need to balance rates generation with economic growth and business development. Legislation makes it difficult to differentiate between evasion and avoidance and fraud can be hard to prove. Business rate fraud can occur due to the falsification of circumstances to gain exemptions and discounts. According to the CIPFA Fraud Tracker 2018, business rates represented 0.9% of the total number of frauds reported in 2016/17 with an estimated value of £7 million. In 2017/18, this had increased to 1.7% with an estimated value of £10.4 million. More authorities are participating in business rates data matching exercises uncovering more cases of fraud.	Major	Almost Certain	25	High	There are a number of controls relating to the confirmation of exemption status and checks made on the validity of claims. Inspections are carried out on a periodic basis and there are various reminders of the need to inform the Council when circumstances change. There are various controls within the Council's systems to ensure separation of duties and system access controls. Performance reporting will flag up any unusual activity. The Council participates in the National Fraud Initiative data matching exercise. This area is subject to audit review on an annual basis.	Moderate	Likely	12	Medium	Increase

Council Tax Fraud	Council tax has consistently been the largest reported issue over the past four years. It usually occurs as a result of individuals attempting to avoid paying council tax by giving false information or by not declaring changes that might affect how much council tax is due. The CIPFA Fraud & Corruption Anti Fraud Tracker 2018 (findings based on annual survey) reported that two thirds of identified frauds related to council tax fraud (66%) with a value of £9.8 million. In terms of volume, council tax was the highest type of fraud. Revenue from council tax is a key income source therefore there is an obvious correlation between council tax fraud and local authority budgetary pressures.	Major	Almost Certain	25	High	There are a number of controls relating to the confirmation of exemption status and checks made on the validity of claims. Inspections are carried out on a periodic basis and there are various reminders of the need to inform the Council when circumstances change. There are various controls within the Council's systems to ensure separation of duties and system access controls. Performance reporting will flag up any unusual activity. The Council participates in the National Fraud Initiative data matching exercise. This area is subject to audit review on an annual basis.	Major	Likely	20	High	Increase
Payroll, Expenses, Recruitment and Pensions	This type of fraud occurs when a member of staff wrongfully fails to disclose information, dishonestly makes false representation, or abuses a position of trust for personal gain, or to cause loss to others. The CIPFA Fraud Tracker 2018 reports that the estimated combined value for these four areas is £2.1 million. However, the cost of these types of fraud can be more than just about the money as the impact on productivity, staff morale and public confidence can be just as great if not more so. It is difficult to establish a value to recruitment fraud as it is not easy to attach a price to the damage to an organisation if it were to employ a member of staff who had falsified their qualifications. Payroll fraud is the main area of this type of fraud and 51% of cases investigated or prevented during 2017/18 were insider fraud. Recruitment fraud is the second highest type in this category with an estimated average value per case of £9,400.	Major	Almost Certain	25	High	The Council has codes of conduct, declaration of interests, gifts and hospitality procedures. The Middlesbrough Manager Framework sets out required standards of managers. There is a Whistleblowing Policy, hotline and procedures to enable staff and Members to raise suspected concerns and an Anti Fraud, Bribery & Corruption Policy. Audit checks are carried out on segregation of duty controls within financial systems including payroll.	Moderate	Possible	9	Medium	No change
Insurance Fraud	The risk is that claimants submit claims against the Council which are fraudulent because the incident did not happen or it has been exaggerated and/or the impact has been fabricated/exaggerated or evidence of an incident or the Council's liability has been fabricated. The CIPFA Annual Fraud Tracker 2018 reported that the number of insurance frauds investigated nationally declined to 117 with an average value of over £12,000. The total estimated value of loss in 2017/18 was £3.5 million compared to £5.1 million in 2016/17. Nationally, considerable work has been done in the area of insurance fraud and insurance companies are working with organisations to develop new ways to identify fraud and abuse within the system.	Major	Almost Certain	25	High	The Council has a series of internal controls in place to confirm the validity of claims submitted against the Council. New claims are investigated by experienced insurers/ claims handlers and solicitors in cases where litigated. There are arrangements in place for identifying duplicate and other erroneous claims via the National Fraud Initiative data matching exercise and other data interrogation techniques.	Moderate	Possible	9	Medium	Decrease
Procurement Fraud	Procurement fraud can occur anywhere throughout the procurement cycle from the tendering stage through to making payments. In CIPFA's 2018 survey, procurement continues to be perceived as one of the greatest fraud risks. In 2017/18, there was an estimated 142 cases of procurement fraud with an associated value of £5.2 million (2016/17 - 197 prevented or detected cases with an estimated value of £6.2 million).	Major	Almost Certain	20	High	The Council operates according to its approved Contract Procedure Rules and has a team of procurement professionals to provide guidance and advice to ensure that procurement processes are carried out in accordance with rules and regulations. There are various controls around the management of tendering processes and declaration of interests procedures. The Middlesbrough Manager Framework includes contract management expectations of managers.	Moderate	Likely	12	Medium	Increase
Right to Buy Fraud	Right to buy is the scheme that allows tenants who have lived in their properties for a qualifying period the right to purchase the property at a discount. The value of this type of fraud has seen a rapid increase as housing has become increasingly expensive, especially in London and this fraud is a higher risk in London than in other parts of the country. The CIPFA Annual Fraud Tracker 2018 reports a continued decline in this type of fraud from £111.6 million in 2016/17 to £92 million in 2017/18 although the volume has increased from 1284 to 1518 cases. As with the social housing fraud risk, this is not a significant direct risk to Middlesbrough Council but one which may have an indirect impact as a result via the impact upon partner agencies.	Minor	Rare	2	Low	As with the social housing fraud risk, this is less of a direct risk to Middlesbrough Council but one which may have an indirect impact as a result via the impact upon partner agencies.	Minor	Rare	2	Low	No change

Adult Social Care Fraud	Adult social care fraud can take various forms and the increase in personal budgets has provided more opportunity although councils have since worked to implement more robust controls over personal budgets which is now seeing a reduction in this type of fraud. CIPFA's 2018 Annual Fraud Tracker reports that the estimated value of adult social care fraud cases has increased by 21% despite a decline in the average value per case - £9,000 in 2017/18 cf to £12,500 in 2016/17. This is due to a rise in the number of fraud cases identified in adult social care that are unrelated to personal budgets (personal budget fraud has declined from an estimated £10,000 per case in 2016/17 to £9,800 in 2017/18 due to councils implementing better controls). In 2017/18, 737 cases of adult social care fraud have been investigated by councils to a value of £6.7 million (2016/17 - 446 cases with a value of £5.5 million).	Major	Almost Certain	25	High	There are a number of verification and monitoring checks undertaken within social work teams and audit and assurance work periodically examines the effectiveness of controls in this area.	Major	Likely	20	High	No change
Economic and Voluntary Sector (grant fraud)	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. As funds become more limited for this type of support it is vital that controls ensure that funds are directed appropriately. Although only 17 actual cases of grant fraud were reported in the 2017 survey, the average value of loss was £39,000 per fraud. The 2018 survey stated that 57 cases of this type of fraud had been reported during the year with an average value of £13,467 which is lower than 2017 average value.	Moderate	Likely	12	Medium	Procedures and eligibility checks relating to individual grants or schemes. There has not been a great deal of audit work in this area therefore some of the 2019/20 contingency time for anti fraud may review a sample of schemes.	Moderate	Likely	12	Medium	Increase