

Audit & Governance Committee

Counter-Fraud Report 2019/20



Introduction

CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."

Similarly, in *The Investigation of Fraud in the Public Sector* (CIPFA, 1994) CIPFA defined corruption as "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person." Furthermore, the Fraud Act 2006 has defined fraud in law for the first time, defining it in three classes:

- fraud by false representation;
- fraud by failing to disclose information; and
- fraud by abuse of position.

Fraud may be committed both from within the organisation and from outside it. Frauds may be complex or simple, opportunistic, pre-planned or continuous.

In June 2013, the National Fraud Authority estimated that fraud was costing the UK £52 billion a year. It estimated that the loss in the public sector was £20.6 billion, with £2.1 billion of this specific to local government (see Appendix 1). In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation or threatening the provision of local services. (At the present time, CIPFA advise that this still remains the last, most reliable and comprehensive set of figures available). However, most recent estimates are higher and an alternative Annual Fraud Indicator produced by Crowe Clark Whitehill estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole.

The current financial climate, which has now worsened due to the global Covid-19 crisis, has increased the likelihood of fraud being perpetrated against the Council. The Audit & Governance Committee has oversight responsibility for the anti-fraud culture within the Council and receipt of annual Counter-Fraud Report is included in the Committee's agreed workplan.

Fighting Fraud & Corruption Locally

In early 2020, CIPFA published "Fighting Fraud & Corruption Locally – A strategy for the 2020s" (FFCL 2020) which succeeded the previous FFCL strategies written in 2011 and 2016.

In the Executive Summary, it advises:-

- *"Local authorities continue to face a significant fraud challenge and while the official figures are dated the argument about protecting funds and vulnerable people remains"*
- *"Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions may be far reaching."*

The strategy also advises:-

- *"The previous two strategies focussed upon pillars of activity that summarised the areas local authorities should concentrate efforts on. These were 'acknowledge', 'prevent' and 'pursue'.*

These pillars are still applicable.....However, another two areas of activity have emerged that underpin tenets of these pillars. These are 'govern' and 'protect'.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies."

- **Govern:** Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance
- **Acknowledge:** Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response
- **Prevent:** Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture
- **Pursue:** Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive local enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat and protect themselves and the community.

The second new area that has appeared during the research recognises the increased risks to victims and the local community:

- **Protect:** Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.

➤ *Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes – the six Cs – that emerged from the 2016 research:*

- *Culture*
- *Capability*
- *Competence*
- *Capacity*
- *Communication*
- *Collaboration*

➤ ***This strategy***

- *recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community*
- *calls upon senior management in local authorities to demonstrate that they are committed to tackling fraud and corruption*
- *calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*
- *calls upon local authorities to work together to illustrate the benefits that can accrue from fighting fraud more effectively*

With the past work performed on counter-fraud processes and specific high-risk areas, the Council is already well-aligned with the local elements of FFCL. Internal Audit will continue to consider current and emerging fraud risk, both generally and in future Service area audits.

Chief Executive Statement

The FFCL 2020 document re-emphasises the 2011 and 2016 message that *“acknowledgement must start at the top and lead to action”*. In response to this, the Council’s Chief Executive (Nigel Lynn) has affirmed that:-

“This Council recognises that fraud is a significant issue nationally and that every successful fraudulent act places an additional financial burden on the honest residents and taxpayers of the District. In collaboration with both central government and our local partners, we will ensure that effective ongoing measures are in place to prevent, detect and pursue fraud against the Council.”

Counter-Fraud Activities

General

The Council is required to provide information on fraud arrangements, etc. in response to the annual request from the external auditors (Ernst & Young LLP), relating to the risks of, identification of and responses to fraud (relevant to ISA 240 – ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’).

The Council also participates in the annual (national) fraud survey conducted by CIPFA, which resulted in their ‘Fraud & Corruption Tracker summary report’ in 2019. The content of this report was drawn to the attention of senior management and the members of the Audit & Governance Committee.

Various publications and briefings on fraud are held by the Council (e.g. from central government, CIPFA, etc.) and the guidance and recommendations in these documents has been used as a basis for counter-fraud work by Internal Audit.

Arun District Council is committed to the prevention, detection and investigation of fraud and corruption. It is expected that all those who work for, serve or deal with the Council will act in a fair and honest way.

The Council has a specific Anti-Fraud, Corruption & Bribery Policy, including the requirements of the Bribery Act 2010. The original 2013 document was reviewed / updated in 2019 and adopted by Full Council in January 2020. There are also other policies and procedures that support and promote this.

There is also a published Fraud Response Plan, which was reviewed / updated and the changes noted by the Audit & Governance Committee in December 2017.

The Council’s Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) is periodically reviewed and is published on the Council’s web site.

The Fighting Fraud Locally strategy recommended that Councils publicise the risks of fraud and encourage public response. Information on the key fraud risk areas facing the Council and contact numbers for members of the public to report suspected fraud cases / concerns is set up as a ‘Fraud’ area on the Council’s web site. A small number of articles in relation to fraud (e.g. Single Person Discount) have previously been provided by the Council for publication in the

local press and updates have also been provided to Members (e.g. in respect of the work being undertaken on housing fraud).

No fraud and / or corruption investigations have been carried out during the year in respect of Members, under the Code of Conduct.

Benefits Investigations

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. Under the Welfare Reform Act 2012, benefits investigations were centralised into a 'Single Fraud Investigation Service' operated under the control of the DWP, although the Council is still required to provide data to support DWP investigations. Members of the public are still encouraged to report suspected incidents of fraud via the National Benefit Fraud Hotline or through a link to the appropriate www.gov.uk pages on the Council's website.

Housing Tenancy

As advised in past reports, housing tenancy fraud is an area of significant concern to the Government and this is now a criminal offence under the Prevention of Social Housing Fraud Act 2013.

The Council has over 3300 properties in its social housing stock. In 2017, following a successful pilot exercise, a dedicated Housing Fraud Investigator post (funded through the Housing Revenue Account) was added to the Council's structure on a permanent basis (although the post is temporarily vacant). In addition to investigating active fraud leads, the Investigator's remit includes prevention - working with other areas of Housing in respect of:-

- the verification process for acceptance to the Housing Register
- the process for verifying Right To Buy entitlement to purchase Council properties
- exchange and succession requests.

The arrangement continues to be successful and of considerable benefit to the Council, (in 2019/20, as reported to Members in Service Delivery Plan indicator SDP20):-

- 12 properties were brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit or following abandonment
- 9 inappropriate applications to the Housing register were prevented
- 2 inappropriate housing benefit / Council Tax Reduction Scheme claims were stopped
- some joint investigations (relating to housing benefit / Council Tax Reduction) were also conducted with the DWP.

(Prevention of housing tenancy fraud allows the placement of new tenants from the Housing Register and potentially reduces emergency B&B costs – the industry standard indicative 'notional value' attached to this is now £93k per property recovered).

Council staff attend meetings of the Sussex Tenancy Fraud Forum and the Council is also a member of the National Anti-Fraud Network (NAFN) and appropriate information may be obtained from them to assist in investigations work.

Other Investigations

Other than the two above areas, all other fraud work is the responsibility of Internal Audit (except for any electoral fraud issues, which are handled by the Returning Officer / Police).

National Fraud Initiative

The Council is a mandatory participant in the National Fraud Initiative (NFI), now operated by the Cabinet Office. This is a data matching exercise that involves comparing records held by one body against other computer records held by the same or another body to see how far they match. An example would be comparing Arun District Council Housing Benefit claimants with the licensed taxi drivers recorded by Arun and other Councils.

Work on the NFI Council Tax Single Person Discount review (based upon data provided in December 2018) was completed in 2019. This resulted in 22 accounts having the discount removed and re-billing of approximately £9k.

In December 2019, Council Tax and Electoral Roll data was again provided for annual Council Tax SPD entitlement checking and the reports received reviewed. Queries on entitlement to SPD have been referred to the Revenues section for review and a number of records referred to the Elections section for removal from the Electoral Roll where (from review of Council tax records) they are known to no longer be resident at the recorded address. However, at the present time where some residents are unable to make their Council Tax payments due to the Covid-19 crisis and the Council is also temporarily not pursuing Council Tax arrears it is unlikely that these cases will be pursued in the normal manner.

Data required for the next main biennial NFI review (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.) will be provided to the Cabinet Office in October 2020 and reports will be received early in 2021.

In response to the Covid-19 crisis, the Government has provided significant funds to the Council for distribution to qualifying local small businesses in line with guidance issued for the:-

- Small Business Grant Scheme
- Retail & Hospitality Grant Scheme
- Local Authority Discretionary Grants Fund.

In April to June 2020 the Council has distributed over £30M in respect of these. At the outset, the Government was concerned that unscrupulous parties would take advantage of the crisis to obtain funds to which they were not entitled and the Government Counter Fraud Function (GCFF) requested local authorities undertake appropriate checks to minimise the risk of fraud. Because of the requirement to distribute the funds urgently, the GCFF recognised that some of the checks would need to be post-payment and that appropriate data should also be collected and held for possible submission to the next NFI exercise. Internal Audit has liaised with the service areas distributing the funds in respect of checks undertaken and data requirements.

Other Revenues Activity

The Council's Revenues area also undertakes a number of other checks in order to reduce the risk of fraud in respect of the eligibility for Council Tax and Non-Domestic Rates (NDR) exemption or reduction. These include:-

- inspection of empty business rated properties
- review of mandatory and discretionary NDR discounts
- review of entitlement to Council Tax exemptions and other discounts
- inspection of residential properties that have been empty for more than 2 years
- contact by the Empty Homes Officer with homeowners where the property has been empty for 6-18 months.

In respect of the last 2 points, a further 67 properties had the 'empty' status removed in 2019/20 which currently has a positive impact on the Council's New Homes Bonus income. (This has

also been reported to Cabinet and OSC in Service Delivery Plan indicator SDP6, which also advises that the Council's Empty Homes Officer won the Empty Homes Practitioner of Year award from the Empty Homes Network).

Local Government Transparency Code

The Local Government Transparency Code, *'issued to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services'* was extended in 2014 to include fraud information.

The Council must now publish certain information on its website on its counter fraud work on an annual basis and this will contain some information that is covered in more detail in this report.

Future Activities

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone cannot guarantee that fraud or corruption will be detected.

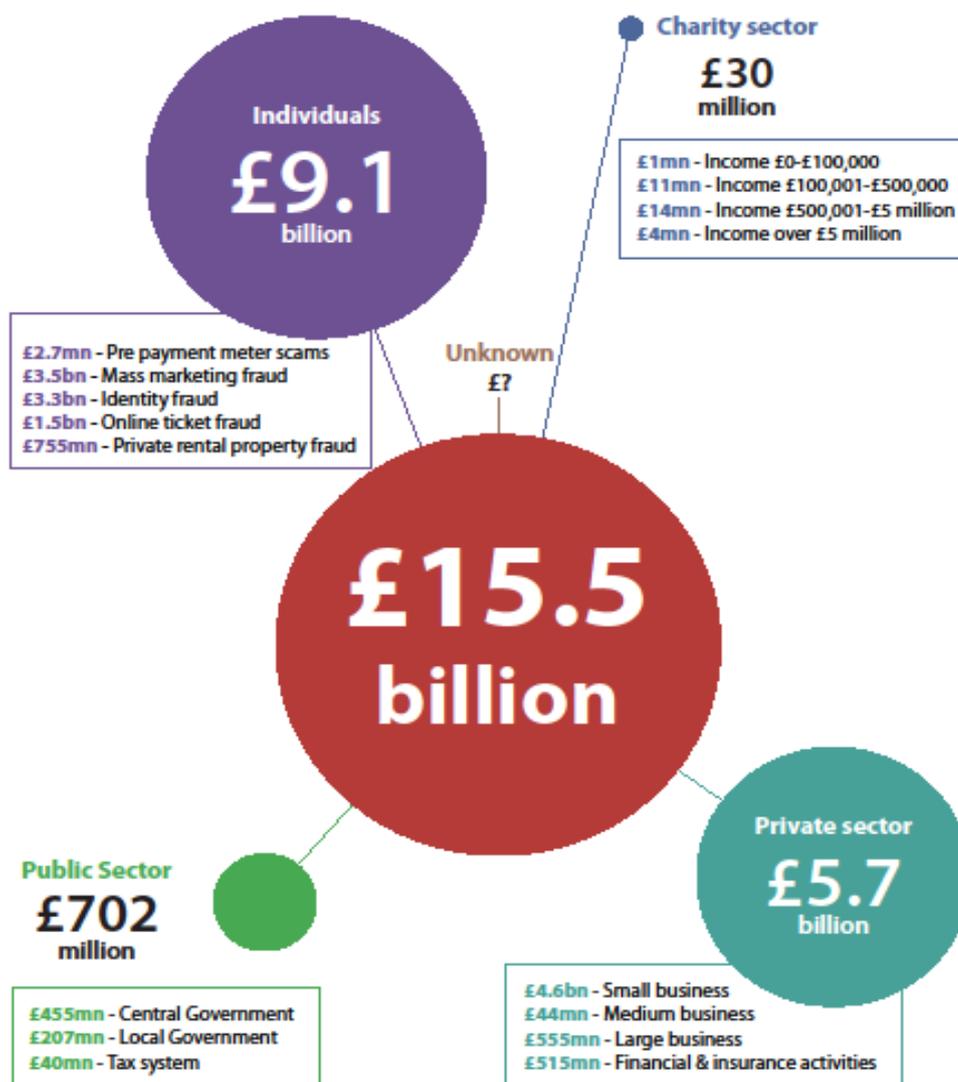
Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of any identified fraud and corruption will also be assessed against the Council's overall governance arrangements. Internal Audit provides an annual opinion on the adequacy and effectiveness of the systems of internal control operating within the Council and any identified cases of fraud or corruption may influence this opinion.

Further to the publication of CIPFA's Code of Practice on Managing the Risk of Fraud & Corruption and the revised Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- will monitor the progress of national initiatives and engage in the various consultations that will be required to implement the strategy
- will continue to examine reports on initiatives undertaken at other local authorities, together with published guidance and advisory documents, to ensure that lessons learnt and emerging fraud risks are considered as part of our counter-fraud activities
- will continue to assess our current activities against the best practice contained in the strategy for local consideration and ensure that our counter-fraud activities are as effective as possible
- will ensure that appropriate counter-fraud measures remain in place in service areas impacted by changes from management / operational restructures or efficiency / cost saving initiatives.

A significant amount of counter-fraud work is already performed by the Council and further work will be undertaken in high-risk areas (such as Council Tax and Housing), in addition to the continual consideration of emerging fraud risks and assessment of the Council's policies and procedures against best practice and appropriate guidance notes.

Figure 1: Identified fraud loss estimates by victim

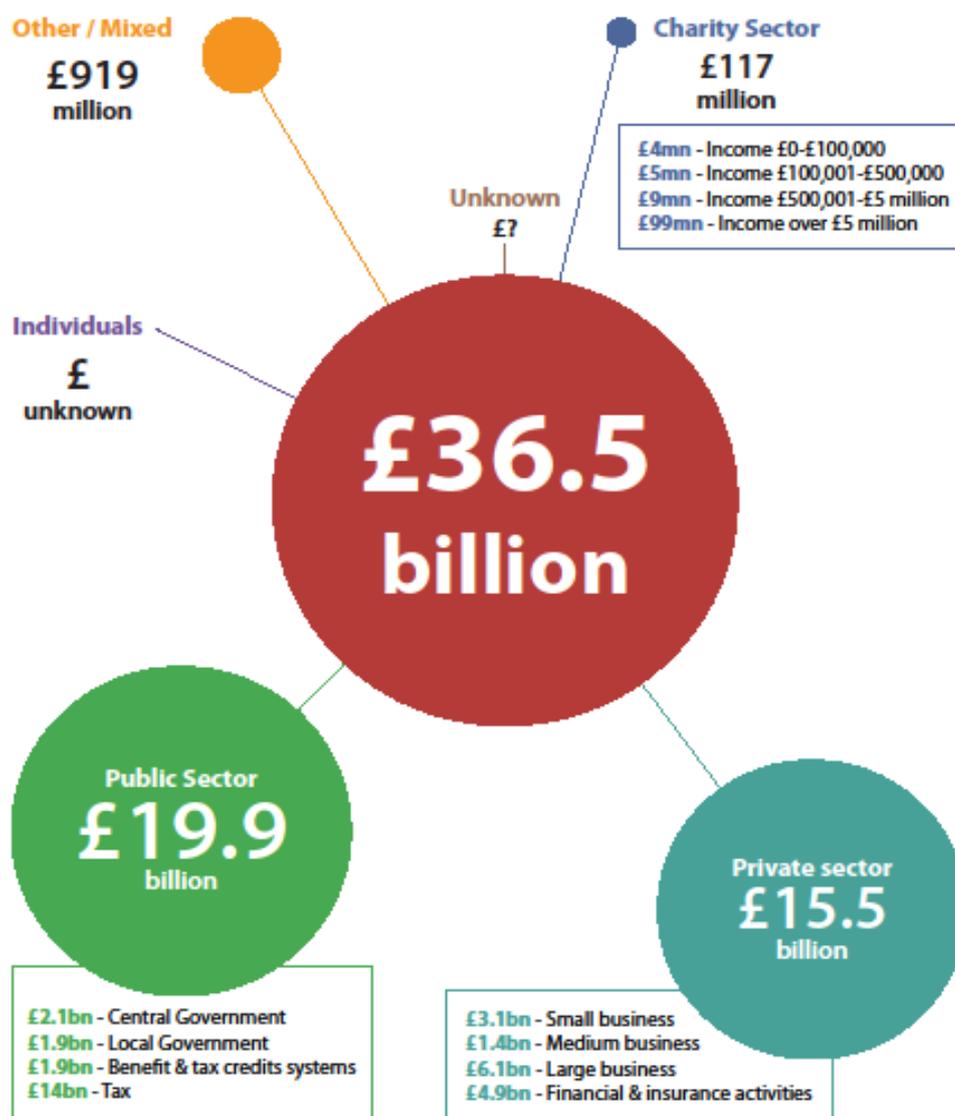


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

The identified fraud loss figures are likely to be an under estimate in some areas where the NFA have not been informed of detected losses, therefore, fraud losses are unknown, rather than zero or not present. See annex 2 for fraud by type breakdown.

Please note figures may not add up exactly due to rounding.

Figure 2: Hidden fraud loss estimates by victim



N.B: It is not always possible to clearly demarcate fraud types to identified or hidden fraud losses as some estimates spread across both. The hidden fraud loss estimate therefore includes those estimates that bridge both hidden and identified fraud losses (see annex 2).

See overleaf and annex 2 for a breakdown of losses within victim type.

Please note figures may not add up exactly due to rounding.

Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Total estimated fraud loss	Fraud type	Fraud loss	Identified loss	Hidden loss
Public Sector £20.6 billion	Tax system	£14.0 billion	Tax fraud	£14.0 billion	£40 million	£1.4 billion
			Vehicle excise fraud	£40 million		Unknown
			Procurement fraud	£1.4 billion		£1.4 billion
			Grant fraud	£504 million		£504 million
			Television licence fee evasion	£204 million		£204 million
	Central government	£2.6 billion	Payroll fraud	£181 million	£181 million	Unknown
			NHS patient charges fraud	£156 million	£156 million	Unknown
			NHS dental charge fraud	£73 million	£73 million	Unknown
			Student finance fraud	£31 million	£31 million	Unknown
			Pension fraud	£14 million	£14 million	Unknown
			National Savings and Investments fraud	£0.40 million	£0.40 million	Unknown
			Housing tenancy fraud	£845 million		£845 million
			Procurement fraud	£876 million		£876 million
			Payroll fraud	£154 million	£154 million	Unknown
	Local government	£2.1 billion	Council tax fraud	£133 million		£133 million
		Blue Badge Scheme misuse	£46 million	£46 million	Unknown	
		Grant fraud	£35 million		£35 million	
		Pension fraud	£71 million	£71 million	Unknown	
Benefit and tax credits systems	£1.9 billion	Benefit fraud	£1.2 billion		£1.2 billion	
		Tax Credits fraud	£670 million		£670 million	

*Black, red, amber, green (BRAG) Assessment: Confidence Indicator

BRAG	Level of confidence
Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based upon management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate.

NB: it is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud identified as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.