

AGENDA ITEM 6

MIDDLESBROUGH COUNCIL

COMMITTEE REPORT

CORPORATE AFFAIRS AND AUDIT COMMITTEE

07 December 2017

Internal Audit – Annual Anti Fraud Report

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PURPOSE OF REPORT

1. To update Members on the impact of fraud on the UK by summarising the main national fraud risks facing the public sector as set out in the Protecting the English Public Purse (*PEPP 2016*) report by The European Institute for Combatting Corruption And Fraud (TEICCAF).
2. To consider the potential impact of fraud on Middlesbrough Council and its residents, the existing anti fraud arrangements in place and the further action that could be taken to safeguard the Council from fraud and loss.
3. 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 Anti Fraud activity in September 2016.

WHAT IS FRAUD AND CORRUPTION?

4. 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.
5. 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 in order to enjoy financial or other pecuniary gain.
6. Bribery is the receiving or offering of undue reward to persons in order to influence their behaviour contrary to ordinary standards of integrity and honesty.
7. 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.

Fraud and Loss Risk Register

8. The closure of the Audit Commission has meant that local authorities are not required to report committed cases of fraud. TEICCAF recognises this is a huge area of weakness and has therefore continued the Protecting the English Public Purse survey to help develop and promote the need for proportionate resources to mitigate the risk. As local authorities are self-regulating in respect of financial risk and fraud, TEICCAF has recommended that each local authority assesses its level of fraud risk & identify any areas of weakness so that the Council can take any required remedial action including making available appropriate resources to mitigate the risk.
9. The Audit & Assurance Team has, since 2011, compiled and maintained a fraud and loss risk self assessment. The detail of this fraud risk assessment has not previously been formally reported but has contributed to the content of the annual audit plan for each year. Given the recommendation of PEPP 2016 however, the fraud and loss risk assessment is now included at **Appendix 2** for Members' consideration and comment. Population of this register is a work in progress and consultation on the content and scoring will take place with risk owners and the business risk partner. Once completed, the register will return to Members of this Committee and will require regular updating in order to identify areas for further action to minimise the risk of fraud.

Anti Fraud Checklist

10. Having a strong anti fraud and corruption culture underpins any Council's objectives by ensuring that resources are appropriately used. In order to tackle fraud, the Council should embrace the national guidance set out in the Fighting Fraud Locally Strategy 2016-2019 which is based on three key principles: Acknowledge, Prevent and Pursue. PEPP 2016 includes a checklist (**Appendix 1**) to be completed by an organisation as a self assessment of its anti fraud arrangements. Review of this checklist and other anti fraud work has identified a number of actions that could be taken to strengthen the Council's anti fraud environment including:

- Complete the fraud and loss risk register and update in response to actual and suspected incidences and emerging threats;
- Prepare schedule for fraud awareness sessions;
- Identify at least one key fraud risk area and undertake proactive anti fraud prevention work and report on outcomes.

In addition to the checklist, an internal audit report on the Council's anti fraud policy framework has also recently been issued in final and this is included at **Appendix 3** for Members' information.

Anti Fraud Arrangements in Place at Middlesbrough Council

11. Middlesbrough Council has the following anti fraud arrangements in place:

- Whistleblowing Policy (under review);
- Anti Fraud, Bribery and Corruption Policy (due for review in 2018);
- Anti Money Laundering Policy (under review);
- 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;
- 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 2016/17 resulted in 22 audit recommendations aimed at improving the anti fraud environment (2015/16 18 and 2014/15 – 30).
- 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.

How significant a problem is fraud to Middlesbrough Council and what is being done to minimise losses?

12. 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.
13. Over the past year, the Audit and Assurance Service received numerous communications relating to various concerns (not necessarily fraud related). Sometimes these concerns were raised with TVAAS directly; other times TVAAS was just one of a number of recipients with the main recipient of the concern being another officer of the Council e.g. within Legal and Democratic Services or the S151 Officer. Due to the volume of communications, the main issues have been considered when reporting how many concerns were made known to Internal Audit during the year. For the 2016/17 financial year and up to the time of this report, 17 main concerns have been recorded on the Internal Audit log. The

format in which these concerns were raised varied and none were made using the whistleblowing hotline. Internal Audit has investigated any concerns that fall within its remit or where it has been given authority to proceed with an investigation. Some of the concerns made aware to Internal Audit were not within the remit of the Service to investigate.

14. During 2016/17, the Council detected no incidences of council tax discount fraud but, like many local authorities, this is attributable to the fact that council tax discount abuse is not treated as a fraud with incorrect status being corrected at the point of identification. During 2016/17, 7 blue badges were retained, 5 of which were due to misuse; two badges had expired (2015/16 – 19 cards retained; 2014/15 - 41).
15. When notified, TVAAS investigate suspected internal fraudulent activity and also review anti fraud controls whilst carrying out audits across the Council. The best way to reduce fraud losses is to prevent the opportunity in the first place by ensuring that the Council has an effective governance and control environment in place. The annual programme of work carried out by TVAAS assists in providing this assurance both on the material financial systems but also in relation to other high fraud risk areas within the Council.

The National Fraud Initiative (NFI)

16. 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. 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.
17. 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 £1.17 billion of fraud, overpayment and error since it started in 1996.
18. The data matching results for the Council from the 2014/15 NFI initiative resulted in 76 reports which identified 8182 matches with 2568 matches 'recommended' for investigation, within a variety of service areas. In total, 2290 matches have been processed resulting in the identification of 9 errors and 2 frauds (payroll and housing benefit claimant matches). A total of £103,401 of benefit was overpaid of

which £64,186 is being recovered either from the claimant or the landlord (official errors accounted for most of the remaining unrecovered amount – not all error identified is classed as claimant error and so may not all be recoverable). No frauds were identified within the remaining data set areas.

19. The 2015-16 data matching exercise is less comprehensive than the biennial exercise. Data sets were input and reports produced in December 2015 for Council Tax (single occupiers) and Electoral Register (rising 18s). These reports only match the council records to each other and are not matched to other bodies.
20. Council and TVAAS officers are currently working on the production of the datasets for the 2016-17 NFI exercise.

Further action to be taken to fight fraud

21. Having a strong anti fraud, bribery and corruption culture underpins any Council's objectives by ensuring that resources are appropriately used. It is the responsibility of all staff to prevent fraud but the work of both the Single Fraud Investigation Service and TVAAS helps to identify fraud risks and areas where anti fraud controls need to be strengthened. In order to tackle fraud, the Council should embrace the national guidance set out in the Fighting Fraud Locally Strategy 2016-2019 which is based on three key principles: Acknowledge, Prevent and Pursue and assess their anti fraud performance against six key themes of culture, capability, capacity, competence, communication and collaboration.
22. PEPP 2016 included a checklist (**Appendix 1**) to be completed by an organisation as a self assessment of its anti fraud arrangements. A high level review of this checklist plus the internal audit report at **Appendix 3** and other anti fraud work has identified the following areas where additional action could be taken to strengthen the Council's anti fraud environment is as follows:
 - 2018/19 audit and assurance plan to include specific anti fraud reviews on insurance, council tax discount, anti bribery and business rates.
 - TVAAS Counter Fraud Audit and Assurance Officer to continue to work in conjunction with service managers across key fraud risk areas in order to ensure strong control frameworks are in place.
 - Continue to review the anti fraud controls in relation to the emerging fraud risks.
 - Request allocation of anti fraud champion role to an elected councillor.
 - Support the Council in implementing the recommendations arising from Counter Fraud Policy Framework audit.
 - Publicising cases of fraud that have resulted in prosecution (subject to legal and Data Protection considerations);
 - Exploring joint ways of working, for example with other local authorities, housing associations etc. in order to tackle high risk areas of fraud outlined in PEPP2016.

FINANCIAL CONSIDERATIONS

23. The Annual Fraud Indicator 2016 estimated that total fraud losses for UK local government amounted to £7.3 billion. 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. 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.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

24. The financial implications of fraud and the measures required to mitigate the risks are highlighted throughout this report. There are no specific ward implications arising from the Fraud Report.

RECOMMENDATIONS

25. Members are requested to note and comment upon the report and highlight any concerns or areas where additional resource should be given to fraud prevention.

REASONS

26. In the current economic climate, most organisations are at an increasing risk of fraud, bribery and corruption. The European Institute for Combatting Corruption and Fraud (TEICCAF) has recommended that local authorities should assess and review their level of fraud risk and identify areas of weakness. Once those have been identified, appropriate resources should be allocated towards implementing any required remedial action. A local authority needs to be able to demonstrate to its residents that it is protecting the public purse. The main national fraud risks relate to housing benefit, social housing, housing tenancy, council tax discount and business rates, insurance and procurement. Fraud can also occur in relation to blue badges, grants, pensions, social care payments and abuse of position. Fraud and corruption can diminish public trust and confidence in local authorities. A strong anti fraud, bribery and corruption culture underpins the Council's strategic objective of being an effective and efficient Council by ensuring that resources are appropriately used.

BACKGROUND PAPERS

27. No background papers other than published works were used in writing this report.

APPENDICES

Appendix 1 – Anti Fraud Checklist

Appendix 2 – Fraud Risk Register

Appendix 3 – Counter Fraud Policy Framework Internal Audit Report

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