



Report Reference Number: A/18/19

To:	Audit & Governance Committee
Date:	30 January 2019
Author:	Jonathan Dodsworth, Counter Fraud Manager, Veritau Ltd
Lead Officer:	Karen Iveson; Executive Director (s151 Officer)

APPENDIX C IS NOT FOR PUBLICATION. This Report contains exempt information under paragraph 3 of schedule 12A to the Local Government Act 1972 as amended.

Title: Counter Fraud Framework Update

Summary:

The council approved a new counter fraud and corruption strategy and associated action plan in 2017. This report updates the committee on progress against the actions set out in the strategy. In addition the council's counter fraud risk assessment has been updated to reflect fraud risks currently facing the council.

Recommendation:

It is recommended that the committee approve the updated counter fraud and corruption strategy action plan. In addition the committee is asked to comment on and note the updated counter fraud risk assessment.

Reasons for recommendation

To help ensure the council maintains robust counter fraud arrangements.

1 Introduction

- 1.1 Fraud is a serious risk to the public sector in the UK. When fraud is committed against the public sector, money is diverted from the services our communities depend on into the hands of criminals. Fraudsters are constantly refining their tactics and techniques in order to circumvent the checks and controls put in place to prevent fraud

from occurring. In order to protect income and assets public sector bodies must regularly develop their counter fraud activity as well as provide a strong deterrent when fraud is detected.

- 1.2 This report documents the annual review of the council's counter fraud framework which includes a counter fraud strategy and action plan, counter fraud policy and fraud risk assessment. In addition it informs the committee of national and local counter developments.

2 National Picture

- 2.1 CIPFA recently issued its annual Fraud and Corruption Tracker report, Appendix A, which details levels of fraud detected by local authorities across the UK in 2017/18. CIPFA reports that procurement fraud remains the highest perceived area of threat to local authorities. While only 142 cases were reported nationally the average loss per case exceeded £36k; 25% of cases related to insider fraud and a further 20% to serious and organised crime. The largest area of growth in terms of fraud detected was in business rates with a 141% increase in loss found in 2017/18 compared to the previous year. Increased attention to this area by local authorities is likely due to proposed changes to council funding. Housing fraud is still seen as a significant area of potential loss for local authorities due to the value of housing stock held. The number of illegally sublet properties detected fell but the number of fraudulent right to buy (RTB) applications found increased by 18%. CIPFA found the average discount in a fraudulent RTB application to be in excess of £60k. Procurement fraud, business rates fraud, and right to buy applications are all areas of focus for the counter fraud team in 2019/20 and specific actions are contained within the counter fraud strategy action plan, Appendix B.
- 2.2 Central government is increasingly concerned about levels of fraud within the public sector. In October 2018 they launched the Government Counter Fraud Profession (GCFP) which is a framework for counter fraud activity across government departments and related organisations. 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.
- 2.3 The Department of Work and Pensions (DWP) wrote to local authorities in October 2017 to propose joint working between local authority fraud officers investigating council tax support (CTS) fraud and DWP officers investigating housing benefit (HB) fraud and other national benefits. Joint working in certain situations may be beneficial to local authorities, e.g. economies of scale and the Crown Prosecution Service can undertake prosecution work, however it is unknown how this will work in practice. Selby District Council expressed their interest in exploring joint working following the request from the DWP in 2017. A national rollout began in September 2018 and is due to begin in the Yorkshire and Humber region in May 2019.

3 Local Trends

- 3.1 The counter fraud team continues to receive substantial numbers of reports of possible fraud from council staff, the public, and government agencies. There has been a 20% increase in the number of reports received in 2018/19 than at the same time in the previous year. The increased number of fraud reports is due to greater engagement by members of staff and the public.
- 3.2 The counter fraud team has detected £33.6k of loss due to fraud and error at the Council in 2018/19 to date which is a substantial increase on the £17.5k detected at the council in the whole of 2017/18. This increase is largely due to a single high value fraud against the authority (see latest progress report and fraud risk assessment) but is also a reflection on increases in the average value of CTS fraud cases and increased detection of business rates fraud.
- 3.3 There has been a 42% increase in statutory requests from the DWP to support their investigation of housing benefit investigations – 81 at Q3 in 2017/18 to 118 at Q3 this year. The number of requests received by local authorities was expected to reduce over the next two years as HB recipients transferred to UC. However, in October the government announced that the transfer of claimants to UC would be significantly scaled back in the short term. This is expected to result in the continuation of sizeable numbers of requests from the DWP to the Council for the foreseeable future.
- 3.4 Over the last year the counter fraud team has continued to develop pro-active work to identify fraud affecting the council. The council collaborated with a substantial number of neighbouring authorities across Yorkshire to take part in the Cabinet Office's pilot data matching exercise to identify potential Business Rates fraud. The exercise highlighted a number of businesses that were fraudulently or erroneously claiming small business rate relief. In addition the exercise identified businesses that may not be paying the correct level of business rates. These businesses have been referred to the Valuation Office Agency for reassessment. Evaluation of these matches continues but the project has already produced £5.7k of savings with more expected in Q4. Given the success of the pilot, it is hoped that it will be rolled out nationally in the next National Fraud Initiative exercise in 2020/21.

4 Review of Counter Fraud Strategy and Risk Assessment

- 4.1 The council's Counter Fraud and Corruption Strategy 2017-19 was approved by the committee in January 2017. The strategy takes into account the national collaborative counter fraud strategy for local government in the UK (Fighting Fraud & Corruption Locally). No changes are required to the main body of the strategy, however the associated action plan, in Appendix B, has been updated to indicate progress on tasks as well as new objectives for 2019/20. A new national counter fraud strategy for local government is expected to be released in 2020 which will lead to a refresh of the Council's strategy.

- 4.2 It is recognised good practice for council's to assess their risk of fraud on a regular basis. A counter fraud risk assessment was first produced for the council in September 2016 and has been updated annually since then. The risk assessment included in restricted Appendix C is the latest update of that document. A number of specific actions are included in the risk assessment. These include work to be undertaken by both the internal audit and the counter fraud teams as part of their 2018/19 and 2019/20 plan of work for the council.
- 4.3 As part of this review the council's Counter Fraud Policy has also been reviewed but no changes are required. However, new legislation (Investigatory Powers Act 2018) and joint working with the DWP may necessitate an update to the policy in 2019/20.

5 Legal/Financial Controls and other Policy matters

5.1 Legal issues

- 5.1.1 Appendix C to the report is exempt from disclosure under the provisions of paragraph 3 of Schedule 12A to the Local Government Act 1972 as it contains information relating to the financial or business affairs of any person including the authority itself. The appendix contains detailed information relating to the systems and processes that the Council has in place to manage fraud risk. The information, if published, could put the Council at increased risk of fraud. Councillors will need to resolve to meet in private session if they wish to discuss any issues arising from Appendix C.

5.2 Financial Issues

- 5.2.1 There are no financial implications as a result of this report.

6 Conclusion

- 6.1 This report updates the committee on national and local developments within counter fraud environment. It also presents the outcomes of the annual review of counter fraud arrangements which helps to ensure that the Council maintains a robust counter fraud policy framework and has an up to date fraud risk assessment in place.

7 Background Documents/Contacts

Contact Officer: Jonathan Dodsworth; Counter Fraud Manager;
Veritau
Jonathan.Dodsworth@veritau.co.uk

Richard Smith; Deputy Head of Internal Audit;
Veritau

Appendices:

- Appendix A: CIPFA Fraud and Corruption Tracker 2018
- Appendix B: Counter Fraud and Corruption Strategy Action Plan
- Appendix C: Fraud Risk Assessment (NOT FOR PUBLICATION. This Appendix contains exempt information under paragraph 3 of schedule 12A to the Local Government Act 1972 as amended)