



## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**TUESDAY 9 MARCH 2021**

<b>REPORT TITLE:</b>	<b>INTERNAL AUDIT COUNTER FRAUD REPORT</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>

### **REPORT SUMMARY**

The purpose of this report is to update the Committee on the activities of the Counter-Fraud Team within Internal Audit and provide details of the outcome of a recent review of the Council's overall Counter Fraud and Corruption arrangements. The report covers the work undertaken by the Team during the previous 18 months.

### **RECOMMENDATION**

The Audit and Risk Management Committee is recommended to note the report, and continue to support the work of the team.

## **SUPPORTING INFORMATION**

### **1.0 REASON FOR RECOMMENDATION**

- 1.1 To provide Members with assurance that the Council is taking appropriate action to address the risk of fraud and that suspected frauds are investigated, and appropriate actions taken to prosecute perpetrators, recover losses and improve financial controls.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 No other options considered.

### **3.0 BACKGROUND AND AUDIT OUPUT**

- 3.1 Local authorities face a significant fraud challenge. Fraud costs local government an estimated £2.1bn a year. Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud, bribery and corruption are a drain on already limited resources and can lead to reputational damage and service disruption.
- 3.2 Fraudsters are constantly revising and sharpening their techniques and local authorities must do the same. As part of this process, we need to make sure that we have identified all the potential fraud risks that the Council may face. These can arise from the activities of staff, suppliers, customers, and service users and may take several forms e.g. Cyber enabled.
- 3.3 The main areas of fraud within the public sector are considered to be:
- Council Tax
  - Disabled Parking (Blue Badge)
  - Housing
  - Business Rates
  - Procurement
  - Insurance
  - Social Care and Welfare Assistance
  - Economic and Voluntary Sector Support and Debt
  - Recruitment Fraud
  - Mandate Fraud and Manipulation of Data
  - Payroll, Recruitment, Expenses and Pension
  - Business Support Grant
- 3.4 The current COVID-19 pandemic has only increased many of these risks. Remote working reduces the level of management oversight; more money has been spent to maintain services and support those in need; unscrupulous fraudsters have targeted local authorities and service users.

- 3.5 The high-risk fraud areas detailed above have been incorporated into the annual Internal Audit planning process and audit work has been completed during the reporting period and will continue to be undertaken during 2021/22.

## **COUNTER-FRAUD TEAM**

- 3.6 The remit of the Counter Fraud Team is to:
- Prepare relevant best practice policies and procedures.
  - Facilitate changes to the culture of the organisation by raising awareness amongst the workforce to fraud and corruption through targeted training.
  - Proactively manage the risk of fraud to the Council through targeted audits in high-risk areas.
  - Provide both a proactive and a reactive response to tackling fraud across the authority.
- 3.7 Also included within this remit is the investigation of serious financial frauds perpetrated against the Council, as well as the teams either direct or supporting involvement with disciplinary and grievance cases, which can often be linked to criminal offences and their subsequent reporting to senior management.

## **ACTIVITIES UNDERTAKEN**

### **Engagement with Fraud Groups**

- 3.8 The Counter Fraud Team continues to chair and co-ordinate the activities of the Mersey Region Fraud Group (MRFG) which consists of several neighbouring authorities and partner organisations. The group is committed to developing a regional approach to counter fraud, including the production of generic policies and procedures, and undertaking collaborative working in targeted areas, such as data matching and other counter fraud exercises.
- 3.9 The Team also contributes to the North West Chief Audit Executives Counter-Fraud Subgroup, who develop practical solutions to mitigate current and emerging fraud risks and respond to sector related change and challenges.
- 3.10 The Team has recently joined the newly formed North West Fraud Forum, which is driven by the North West Regional Organised Crime Unit. The Forum brings together counter fraud professionals from public and private sectors within the North West region to fight fraud. They provide a platform to raise awareness of the latest fraud types and trends, to promote collaboration and the sharing of ideas, knowledge, tools, and best practice to better equip members to fight fraud and cybercrime.
- 3.11 The Council subscribes to the National Anti-Fraud Network, which promotes the sharing of information between Authorities and publishes regular bulletins on fraud cases and attempted scams, which are distributed to relevant staff and appropriate measures are taken to address the identified risks.

## **National Fraud Initiative**

- 3.12 The Team oversees and co-ordinates the Council's involvement in the National Fraud Initiative (NFI) which the Council is required by law to participate in. This is a national exercise using data matching audit techniques. Council-wide data sets covering a wide range of financial and non-financial applications such as Housing Benefits, Council Tax, Electoral Registration, Pensions, Payroll, Creditors, Blue Badges, Housing Waiting List and Business Grants are uploaded to the Cabinet Office website, which are then matched with data within and between participating bodies to identify potential frauds, overpayment, and errors.
- 3.13 On receipt of the results the Council then has responsibility to follow up and investigate the matches. The main NFI data matching is undertaken every two years, the results of these matches are fed into a national report at the end of each cycle. Data sets were submitted in October 2020 for the 2020/21 NFI biennial data matching exercise and results of data matches were received at the end of January 2021 and are currently being assessed.
- 3.14 The NFI exercise consistently generates significant savings for the Council, arising largely from payments recovered or stopped. Traditionally the exercise generates in the region of £350,000 which the Council can recover, the precise figures for the current exercise will not be known until the returned matches have been investigated later this year.
- 3.15 The Team has worked with departments to develop and implement Action Plans, ensuring lessons are learnt from this exercise. The aim being to identify common themes and recurring types of frauds, overpayments, and errors, so that departments can identify what changes can be made and measures taken to reduce their incidence.

## **Counter Fraud and Corruption Strategy and Policies**

- 3.16 The Team updated the Council's Counter-Fraud and Corruption Strategy in December 2020, which identifies the Council's commitment to an effective Counter-Fraud and Corruption approach, as part of its overall Corporate Governance arrangements. The Strategy outlines the principles that the Council is committed to in preventing and reporting fraud and corruption.
- 3.17 The Team reviewed and amended the following policy documents, which form an important part of the Counter-Fraud and Corruption Strategy by setting the tone, culture, and expectations of the Council, as part of the corporate framework:
- Anti-Fraud and Corruption Policy - this outlines the Council's attitude to and position on fraud and corruption and sets out responsibilities for its prevention and detection.
  - Fraud Response Plan – this details the Council's procedure for responding to any incidents of suspected fraud or corruption.
  - Anti-Bribery Policy - this sets out the actions required by Wirral Council officers to ensure compliance with the Bribery Act 2010 and details the

sanctions which are applicable to individuals and to the Council, in the event of a prosecution under the Act.

- 3.18 The Counter-Fraud and Corruption Strategy and Policies have been promoted across the Authority and the Anti-Fraud & Corruption and Bribery Policies are listed as documents that employees are required to read on an annual basis, as part of one to one or performance appraisal/check-in meetings.

### **Assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption**

- 3.19 To support the work of Local Authorities, CIPFA issued a “Code of Practice on Managing the Risk of Fraud and Corruption”. Although the Code is not mandatory, it represents best practice and compliance with the Principles set out in the Code enable the Council to demonstrate effective financial stewardship of public monies.

- 3.20 The assessment tool and guidance contain 68 performance statements which are used to measure the Council’s effectiveness against the five key principles of managing the risks of fraud and corruption, which are to:

- Acknowledge the responsibility for countering fraud and corruption.
- Identify the fraud and corruption risks.
- Develop an appropriate counter fraud and corruption strategy.
- Provide resources to implement the strategy.
- Take action in response to fraud and corruption.

- 3.21 An internal assessment against the Code was carried out in December 2020 and identified an 80% compliance with the Code, which is classed as a “Good” level of compliance. CIPFA are currently consulting on revisions to the Code and supporting self- assessment toolkit, therefore the next full assessment will be carried out after the publication of any updated guidance.

### **The Revised Local Government Counter Fraud and Corruption Strategy**

- 3.22 “Fighting Fraud and Corruption Locally” is the counter fraud and corruption strategy for local government. The strategy was subject to a major review in 2019-20 and a new version, “Fighting Fraud and Corruption Locally: A strategy for the 2020s” was launched in March 2020.

- 3.23 The previous strategy had been based on the three pillars of “Acknowledge, Prevent and Pursue”. The new strategy retains these and adds two more:

- Govern – ensuring that there is executive support for a council’s anti-fraud measures.
- Protect – protecting the council against serious and organised crime and protecting individuals and communities from becoming victims of financial crime.

- 3.24 By using this strategy local authorities will:

- Develop and maintain a culture in which fraud and corruption are understood to be unacceptable;
- Understand their fraud risks and prevent fraud more effectively;
- Use technology to improve their response;
- Share information and resources more effectively to prevent and detect fraud loss;
- Bring fraudsters to account more quickly and efficiently; and improve the recovery of losses.

3.25 The strategy is more concise than the previous version with the intention of being more readable for Senior Managers and Members. An action plan is in the process of being developed based on a self-assessment against the “Five Pillars”, which will also include actions required, as identified by the “Managing the Risk of Fraud and Corruption” self-assessment. Progress against the Action Plan will be included in future counter fraud update reports.

### **Training, Awareness and Reporting**

3.26 During the last eighteen months, the officers of the Counter Fraud Team attended appropriate and relevant virtual training and awareness sessions delivered outside of the authority by organisations, such as CIPFA and CIIA. In addition to these courses, they have also attended localised and national networking meetings of their peers. These provide important opportunities for the officers to update and refresh their knowledge in the counter fraud arena.

3.27 In May 2020, the Team co-ordinated a prompt and joined up response to ensure employees, our partners and the wider public were aware of the raised threat of fraud resulting from the COVID-19 pandemic. The Team included a scam awareness section on the Council’s website and monitor scam incidents with other partners. Where appropriate we communicate externally through social media and partners.

3.28 Moving forward, the Team have been gathering intelligence and information (from national and local sources) regarding potential fraud risks relating to the changed scenario in which the Council finds itself. This information is acting as a guide to those specific service areas and transactions most vulnerable to fraud and we are revising our fraud plan accordingly, to ensure our response remains effective.

3.29 In November 2020, the Team coordinated its annual week-long Staff and Public Fraud Awareness Campaign, which coincided with the international fraud awareness campaign and included the COVID-19 scam message to residents and local businesses. The aim of the week was to heighten the awareness of the problem and scale of fraud in the public sector, to direct all employees to complete the Fraud Prevention e-learning course and to encourage staff and the public to report any suspicions of fraud that they may have. The campaign involved e-alerts, intranet bulletins, newspaper articles and messages on social media.

3.30 Since the campaign, the Team has seen both an increase in the take up of the Fraud Prevention e-learning course and the number of requests for guidance including investigations that they were asked to both undertake or to provide advice and support with. This clearly demonstrated that the work to raise the profile of the team,

and the support that they can provide has been successful, in that more requests for assistance are now being received.

### **Planning to Minimise the Risk of Fraud**

3.31 The Counter Fraud planning process includes a review of fraud risks to ensure that all relevant risks are identified and to support the development of a programme of proactive anti-fraud work that minimises the risk of loss to the Council.

3.32 Risks are identified from several sources, including:

- CIPFA's annual Counter Fraud and Corruption Tracker Survey
- "Fighting Fraud and Corruption Locally: A Strategy for the 2020s" – the local government counter fraud strategy.
- Intelligence gained from networking with other authorities via the North West Fraud Group and, the Mersey Region Fraud Group.
- Outcomes from previous Internal Audit reviews and investigations
- Outcomes from the work of the Counter Fraud Team.
- Feedback from managers on areas where they have identified control weaknesses that may increase the risk of fraud.

3.33 The Covid-19 pandemic has created potentially significant changes to the fraud risks faced by the council, some of which will be short-term, others of which are likely to have a longer-lasting impact. Therefore, a full review of fraud risks will be undertaken in 2021 to assess how the council's overall fraud risk environment has been changed by events relating to the pandemic.

### **Fraud Risk Diagnostic Tool**

3.34 The Counter Fraud Team launched a new fraud diagnostic tool in November 2020 to help managers identify fraud risks in their service area, and understand what key controls should be put in place to reduce the risk of these frauds occurring.

3.35 The tool asks several questions about service activity and provides a list of the key controls relevant to that activity to help mitigate the risk of fraud loss. This detailed intelligence will also enable the Counter Fraud Team to provide targeted support and guidance, as appropriate.

### **Audits and Investigations**

3.36 During the last eighteen months, the development and recognition of the Counter-Fraud Team has continued with significant progress, which has resulted in 69 non-benefit related reports and referrals being made to the team which represents an increase of some 18% of the cases reported/referred previously to Members. The type of issues covered a broad spectrum of the Council's activities, including the COVID-19 Business Support Grant referrals, which represents 75% of all referrals received.

3.37 In addition, the Counter Fraud Team provides advice to departmental officers investigating suspected frauds and irregularities, in cases where these are

investigated within the department. The last year has seen an increase in the number of referrals from departments as the profile of the Team continues to rise and become more widely known to management.

- 3.38 The Team maintains a fraud referral register, which is used to collate details of all reported fraudulent activity across the Council, whether investigated by the Counter-Fraud Team or by the relevant department. The information contained within the register is then used to identify potential weakness and areas that may be susceptible to increased attempts of fraud and as such where Counter-Fraud resources need to be directed.
- 3.39 The Team has conducted 15 audits and investigations across a wide range of topics and, as identified in the Strategic Internal Audit Plan presented to this Committee in March 2020, and subsequently reported upon at corresponding meetings. These assignments whilst predominately planned also include pieces of work in response to requests from Chief Officers or Members or resulting from allegations made, including whistleblowing.
- 3.40 Outcomes from individual audits and investigations are reported to Members through the quarterly Internal Audit update reports and the Chief Internal Auditors Annual Report.
- 3.41 Between April to June 2020, the Counter Fraud Team were seconded to the Business Grants Verification Team, to process COVID-19 Business Support Grant applications. The Team are now assisting the Business Grant Verification Team, by undertaking post assurance due diligence checks on applicants, using the Government Grants Management Function and Counter Fraud Team Spotlight Tool.

### **Summary**

- 3.42 The wide range of the activities and incidents covered in this report highlights the extent to which fraud and error exist as risks to the achievement of the Council's objectives and the degree to which these risks can change over time. There are programmes of work in place across the Council to identify and investigate fraud risks and there is effective communication between the services involved.
- 3.43 Participation in counter-fraud activities and compliance with best practice helps to strengthen the Council's approach and management of these risks. Working with partners, as demonstrated by the NFI, successfully illustrates the benefit of partnership working and co-operation between all involved. The national sharing of data allows participating organisations to effectively identify areas of potential fraud or error, reducing the future risk of such fraud or errors going undetected.
- 3.44 Work will continue in 2021/22 to ensure that the Council promotes an environment where fraud and corruption are not tolerated and the Council responds effectively to all fraud risks, including those arising from the COVID-19 pandemic.

## **4.0 FINANCIAL**

- 4.1 Delivery of the counter-fraud work will be met from existing Internal Audit resources.



## **5.0 LEGAL IMPLICATIONS**

- 5.1 Local Authorities have a statutory duty to have arrangements in place for the proper administration of their financial affairs under the Local Government Act 1972. That duty includes the prevention, detection and deterrence of fraud and corruption. The Counter Fraud and Corruption Strategy, Anti-Fraud and Corruption Policy and Fraud Response Plan provides a framework for fraud awareness, response and key actions relating to improving the Council's counter fraud and corruption framework. In the absence of an up-to-date strategy and policies there is a risk that fraud and corruption may not be monitored or be unreported.
- 5.2 The Bribery Act 2010 came into law in July 2011. The Act creates two general offences covering the offering, promising or giving of an advantage and requesting, agreeing to receive or accepting of an advantage. It also introduces a corporate offence of failure to prevent bribery by persons working on behalf of a business. An organisation can avoid conviction if it can show that it has adequate procedures in place to prevent bribery.

## **6.0 RESOURCE IMPLICATIONS**

- 6.1 It is envisaged that all work will be carried out within existing resources.

## **7.0 RELEVANT RISKS**

- 7.1 That fraud is not properly addressed, investigated and appropriate actions are not taken to prosecute perpetrators, recover losses and improve financial controls.
- 7.2 Given the budgetary constraints the council has been faced with and the reduced staffing levels it will always be a risk that previously robust procedures may not be followed and therefore providing the opportunity for fraud to occur.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 None

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 There are none arising from this report.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

- 10.1 The content contained within this report are expected to have no direct impact on emissions of CO<sub>2</sub>/Greenhouse Gases.

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## **APPENDICES**

Appendix 1 – Counter Fraud and Corruption Strategy

**BACKGROUND PAPERS**

- Managing the Risk of Fraud and Corruption– CIPFA Publication.
- Fighting Fraud and Corruption Locally: A strategy for the 2020s - The Local Government Counter Fraud Strategy.
- CIPFA’s annual Counter Fraud and Corruption Tracker Survey.

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Audit and Risk Management Committee	Annual Report