



Committee and Date

Audit Committee
30 November 2017
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Item

Public

ANNUAL REVIEW OF COUNTER FRAUD, BRIBERY AND ANTI-CORRUPTION STRATEGY AND ACTIVITIES, INCLUDING AN UPDATE ON THE NATIONAL FRAUD INITIATIVE

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk

Telephone: 01743 257739

1. Summary

This report outlines the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council manages these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. The Counter Fraud, Bribery and Anti-Corruption Strategy has also been reviewed. The strategy continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the continuing and important role the strategy plays in the corporate governance and internal control framework. This report also provides an update on the action plan to ensure continuous improvement.

2. Recommendations

Members are asked to consider, and endorse with appropriate comment, the Counter Fraud, Bribery and Anti-Corruption Strategy and measures undertaken and detailed in this report to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The adoption and promotion of an effective Counter Fraud, Bribery and Anti-Corruption approach helps the Council encourage the detection of fraud and irregularities proactively, and manage them appropriately.

- 3.2 In aligning the Council's Counter Fraud, Bribery and Anti-Corruption Strategy with CIPFA's Code of practice on managing the risks of fraud and corruption, the Council continues to apply best practice.
- 3.3 Internal Audit, working to the Public Sector Internal Audit Standards (PSIAS), has a responsibility to evaluate the potential for the occurrence of fraud and any subsequent management response. This report sets out some of the practices employed to evaluate and manage these risks including involvement with the National Fraud Initiative.
- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

All revisions can be met from within existing budgets.

5. Background

- 5.1 The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 5.2 The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution, last reviewed and updated in February 2017. There has been no new guidance since February and therefore no changes are proposed to the existing strategy which can be located on the Council's website.

6. Issues

National Picture

- 6.1 The Fighting Fraud and Corruption Locally Strategy (FFCL) 2016–2019 is England's counter fraud and corruption strategy for local government. It continues to be the definitive guide for council leaders, chief executives, finance directors, and all those with governance responsibilities. The Fighting Fraud and Corruption Locally Companion 2016–2019 is aimed at local authorities who undertake work in the counter fraud area. The Companion contains good practice and a checklist for local authorities to use as part of making sure they have the right processes and resources in place. The Council's Counter Fraud, Bribery and Anti-Corruption Strategy continues to be aligned to this checklist.
- 6.2 Members agreed to an Action Plan following the previous review and refresh of the Counter Fraud, Bribery and Anti-corruption Strategy. This Action Plan sets out the developments the Council proposes over the medium term future to further improve its resilience to fraud and corruption and progress against the plan is demonstrated below:

Action Plan

Action	Implementation Date	Update
To proactively use the results of previous fraud risk assessments and publically available information from recognised organisations i.e. CIPFA, Grant Thornton, to direct counter fraud resources in the annual Internal Audit Plan.	Spring 2017	Completed and ongoing
To refresh the Council's suite of anti-fraud policies, strategies and procedures and to ensure that they continue to be relevant to national guidance.	Annually in November	Completed and ongoing
To remind all staff and members of their role in sustaining a strong counter fraud, bribery and anti-corruption culture and the appropriate reporting channels where any fraud is suspected.	Annually in November	Completed and ongoing
To undertake an annual Fraud Risk Assessment covering the Council's main areas of exposure to fraud and to use the results to influence the Council's approach moving forward.	Annually in October	Completed and ongoing
To update the Council's e-learning module on Fraud Awareness and to promote its uptake by all employees.	July 2017	Slippage - a revised date of March 2018 is proposed
To be an active participant in the National Fraud Initiative (NFI) and to investigate robustly suspected cases of fraud identified through NFI and report outcomes to Audit Committee.	Biannually in November	Completed and ongoing
To refresh the Fraud Awareness pages on the web site and to engage with managers through targeted communications to emphasise their obligations to operate effective systems of internal control which are designed to reduce the risk to the Council of fraud, error or inadvertent loss.	Annually in November	Completed and ongoing
To assess the Council's response to fraud against the Fighting Fraud and Corruption Locally companion checklist	February 2017	Completed
Refresh of the Council's Money Laundering Policy, communication of and training on	December 2017	New

6.3 The Annual Fraud Indicator 2013 (AFI) still provides the most recent government recognised figures regarding fraud. Estimates in 2013 showed that fraud costs the UK economy £52bn per year, with losses against the public sector estimated at £20.6bn, £2.1bn at local government level.

6.4 As part of the Midlands Chief Internal Auditors sub group for Fraud, members' research has identified the following areas as ones with a high potential for fraudulent activity in terms of value:

- Housing benefit
- Social Housing
- Right to buy
- Council tax

And that on average, authorities have 2.2 full time equivalent (FTE) investigation officers. Shropshire does not have a dedicated officer. It has three officers who spent 0.58 of their joint time on fraud investigations as reported under the transparency agenda.

6.5 At a recent CIPFA Counter Fraud Summit, the total value of fraud was reported as estimated at £33m over 75,212 cases, in the areas of:

Area	Ranking by number of cases	Ranking by total value of fraud	Ranking by average case value
Council tax	1	2	10
Housing	2	1	1
Disabled parking concessions	3	7	9
Business rates	4	3	5
Adult social care	5	5	4
Insurance claims	6	6	3
No recourse to public funds	7	4	2
Mandate fraud	8	8	6
Schools fraud (excl. transport)	9	10	8
Payroll	10	9	7

6.6 The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. Its intention is to provide a more complete picture of local authorities' vigilance in respect of fraud. It examines:

- Levels of fraud and corruption detected each financial year;
- Number of investigations undertaken;
- Types of fraud encountered;
- Emerging trends.

It is an up-to-date overview of all fraud, bribery and corruption activity across the UK public sector.

6.7 The Council participated in CFaCT, the key results from which for 2017 are yet to be received and will be provided to members in due course.

CIPFA's Counter Fraud Assessment Tool

- 6.8 Members may recall that CIPFA developed and shared a counter fraud assessment tool. The tool is designed to help councils assess their counter fraud arrangements against the standards set out in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption, as published and reported to Audit Committee in November 2014. The tool is used as a basis for ongoing improvement and development planning, it also provides a basis for assurance on the adequacy and effectiveness of the Council's counter fraud arrangements. The action plan reported on earlier within this report is reflective of the improvements identified when applying this tool.
- 6.9 Whilst no organisation is fraud proof, Shropshire Council has taken robust steps to improve its resilience and continues to meet the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Leadership has acknowledged its responsibilities for managing risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements to carry it out, and is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the Council and meeting the standards of this code contributes to good governance.

National Fraud Initiative (NFI)

- 6.10 The National Fraud Initiative (NFI), run by the Cabinet Office, is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council continues to participate in this exercise, Results of the 2016/17 data matching exercise are shown in the table below.

Area of Investigation	Outcome of Investigations	Saving Identified
Deceased Pensioner Matches	<p>73 matches were identified and all matches investigated.</p> <p>Seven deceased pensioners were identified as receiving a pension into the deceased pensioner's bank account. This resulted in overpayments of £19,275.01 with a total of £19,209.93 in the process of being recovered. Payments under £100 are not recovered as per the agreed policy.</p> <p>The sum of £19,209.93 recovered included one case of confirmed fraud totalling £13,146.10. All the money has been recovered in respect of this fraud.</p>	£19,209.93
Blue Badges to Deceased Persons	The report identified 398 matches and all matches were investigated.	£0.00

Area of Investigation	Outcome of Investigations	Saving Identified
	<p>This identified 196 errors for resolution. In all 196 cases the Blue Badge Team confirmed they had not been notified of the death but had since cancelled the blue badge.</p> <p>It is not a legal requirement for the return of a blue badge upon the death of the holder.</p>	
<p>Concessionary Bus Passes to Deceased Persons</p>	<p>These reports identified 1,134 matches. All matches were investigated and identified a total of 228 errors where the Council had not been notified of the pass holders' death.</p> <p>All passes have since been cancelled. A saving of £1 per pass is automatically allocated to the match re future admin saving costs, therefore a total of £228.00 has been saved due to the NFI exercise.</p>	<p>£228.00</p>
<p>Residential Care Home Residents to Deceased Persons</p>	<p>The report identified 95 matches, all were investigated and confirmed to be due to timing differences.</p>	<p>£0.00</p>
<p>Housing/Council Tax Benefits/Council Tax Reduction Scheme</p>	<p>Dispensation has been obtained from the Cabinet Office that the team would only sample investigate a small number of matches due to existing controls in place in respect of real time reporting and processes for annual billing.</p> <p>No overpayments were identified on the matches reviewed.</p>	<p>£0.00</p>
<p>Creditor Reports</p>	<p>Creditor reports on possible duplicate payments, invalid VAT registration numbers and duplicate supplier accounts were provided.</p>	<p>£681.00</p>

Area of Investigation	Outcome of Investigations	Saving Identified
	<p>Audit Services investigated potential duplicate payments and to date one duplicate of £681.00 has been identified and the money recovered.</p> <p>Investigations identified that an invoice had been paid by two schools for a Head Teachers conference where the schools shared a Head Teacher.</p>	
Housing Tenants to Deceased Persons	These reports identified 57 matches. All were investigated and found to be due to either timing differences or mis-matches.	£0.00
Personal Budgets to Deceased Persons	<p>A total of 17 matches were identified and all matches were investigated.</p> <p>It was confirmed that the matches were all due to timing issues and no frauds or errors were identified.</p>	£0.00
Other reports	Other reports such as possible duplicate insurance claims, deceased parking permit holders, taxi drivers to in-country immigration, personal budgets to pensions, payroll to payroll and procurement were all investigated and where appropriate records have been updated accordingly. No savings have been identified from these reports.	£0.00
	Total Savings	£20,118.93

6.11 The final national report in respect the 2016/17 data matching exercise has yet to be issued and a copy will be made available to the Committee when this is published.

Transparency requirements

6.12 Legislation on transparency also applies to anti-fraud activities. The Local Government Transparency Code sets out the minimum data that local authorities should be publishing, the frequency with which it should be published and how it should be published. The Council has complied with these requirements, the results of which can be found on the web site at:

<https://www.shropshire.gov.uk/open-data/datasets/fraud-data/>

Update on Regulation of Investigatory Powers Act 2000 (RIPA) Activity

6.13 The Council's Regulation of Investigatory Powers Policy ('the Policy') that sets out the Council's position in respect of the use of surveillance techniques was updated with effect from 1 October 2015. There have been no further changes to the policy.

Whistleblowing Policy's

6.14 The Council has a whistleblowing policy for the public and its employees. Both policies have been reviewed and updated in respect of key contacts and staff information. There have been no changes proposed to the process of 'blowing the whistle'. An annual reminder is circulated to all employees to raise awareness as to the availability of this policy.

6.15 The Whistleblowing Policy is available to staff via the Intranet pages and is also available to them, along with members and the public, via the web-site; allowing it to be accessed from any computer. This is particularly important as it allows staff to access the policy outside of a work environment, where they may be reluctant to be seen accessing the Whistleblowing policy.

Money Laundering Policy

6.16 The Council has a Money Laundering Policy and following new regulations, The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 which commenced on the 26th June 2017, the policy is to be updated and will be reported to a future meeting of the Committee.

Qualified officers

6.17 Internal Audit continues to have sufficient officers trained, up to date and capable of undertaking investigations in a professional manner as the need arises. One officer has the Advanced Professional Certificate in Investigative Practice. Two further officers are accredited CIPFA Counter Fraud Technicians Course. In total over a third of the Audit team have qualifications and/or considerable experience in conducting investigations.

Update on counter fraud plans

6.18 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed. There is no change to the high risk area of housing benefits. Eleven medium risk areas have been identified. These are the same as last year with the inclusion of a new risk covering pension fraud where they are not covered elsewhere in the fraud risk assessment. The Council acts as the Administering Authority for the Shropshire County Pension Fund and therefore it has been included in the fraud risk assessment. The total list of risks is:

High

- Housing benefits

Medium

- Fraudulent travel, expense, overtime and timesheets
- Pension continues after death
- Creation of a ghost employee/pensioner
- Employee commits benefit fraud
- False invoicing

- Theft of cash
- Council tax discounts
- NDR reliefs
- Disabled parking blue badges
- Direct payments / personal budgets
- Pension abuse individuals and funds

6.19 There are a number of steps in place, continuing, planned or underway to help to explore, identify and mitigate these fraud risks:

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. Housing Benefits, Internal Audit and Human Resources officers continue to jointly risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control may be at risk.
- Specific Internal audit reviews of arrears payments and over payments to employees is underway. To establish the root cause of any such payments and follow up if any misconduct is suspected.
- The 2016/17 NFI exercise includes data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits. The results of which continue to be worked through to identify any control risks and deal with any potential fraudsters.
- To reduce the risk of cybercrime and the impact it would have on all areas of the councils services, a full IT risk assessment is conducted and audit reviews planned and completed in these specialist areas.

6.20 The current year audit plan includes a number of internal audit reviews that have been conducted, or are planned, to help ensure appropriate controls are in place, and are operational, to counter the fraud risks identified from the risk assessment:

- Cash regularity, in addition cash is reviewed as part of establishment audits
- Council tax
- NNDR discretionary relief
- Parking enforcement
- Payroll
- Pensions
- Personal budgets and direct payments
- Purchase ledger
- Purchasing and contract arrangements
- Sales ledger

In addition, for every investigation where weaknesses have been identified in internal controls, a report highlights areas to be improved to reduce the risk of future inappropriate activity.

6.21 In summary, the Audit Committee are asked to take assurances as to the level of counter fraud activity currently undertaken with the current resources.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA: Code of practice on managing the risks of fraud and corruption, October 2014

The Bribery Act 2010

NFA Fighting Fraud Together, The strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

Regulation of Investigatory Powers Policy (Version4 09/2015) adopted with effect from 1 October 2015

Cabinet Member (Portfolio Holder) Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

Local Member n/a

Appendices: Not applicable