



Committee and Date

Audit Committee
24 November 2016
9:30 am

Item

Public

ANNUAL REVIEW OF COUNTER FRAUD, BRIBERY AND ANTI-CORRUPTION 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 is currently being reviewed in line with best practice and will be the subject of a later report to Committee. In the meantime, 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.

2. Recommendations

Members are asked to consider, and endorse with appropriate comment, the measures undertaken and detailed in this report.

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 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 November 2015, the strategy is now the subject of an ongoing review and, as such, will be reported to a future meeting of this Committee.

6. Issues

National Picture

- 6.1 The Annual Fraud Indicator 2013 (AFI) still provides the most recent government recognised figures regarding fraud. Estimates show that fraud costs the UK economy as a whole £52bn per year, with losses against the public sector estimated at £20.6bn, £2.1bn at local government level. Several areas particularly susceptible to fraud were identified within the £2.1bn. These were; housing tenancy, procurement, payroll and recruitment, council tax, blue badge scheme, grants, pensions, and housing benefits. As a result of the establishment of the Single Fraud Investigation Service (SFIS), the Department of Work and pensions (DWP) has taken over responsibility for investigating housing benefit fraud and tax credit fraud. Previously, local authorities and Her Majesty's Revenue and Customs (HMRC) were responsible for these investigations.

Authorities still retain responsibility for fraud prevention and the investigation of all other fraud risks.

6.2 The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. It is similar to the former Annual Fraud and Corruption Survey delivered by the Audit Commission and includes questions commissioned by the Fighting Fraud and Corruption Locally Board and the Home Office. The 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.

6.3 The Council participated in CFaCT, the key results from which were:

- The largest area of growth in fraud investigation across the public sector is in procurement.
- Business rates continue to be an area of concern with right to buy becoming an emerging risk, particularly in London.
- 10% of organisations which responded have no dedicated counter fraud service.
- Respondents reported the number of non-benefit investigators has increased by nearly 50% since the 2014/15 report. Organisations with a limited counter fraud capability may not have completed the survey.
- What is perceived as a high risk area for fraud varies across the country and by organisation. Local authority respondents noted their largest fraud risk areas as:
 - council tax and
 - housing procurement.
- CIPFA estimates that over £271m worth of fraud has been detected or prevented within the public sector in 2015/16. This represented 77,000 cases at an average value of £3,500 per case.
- 56% of respondents had access to a financial investigation resource which allowed them to recover money from convicted fraudsters. Respondents recovered £18.4m through proceeds of crime investigations.
- The highest number of investigations covered council tax fraud (61%) with an estimated value loss of £22.4m. The highest value gained from investigations was in the area of housing fraud and totalled £148.4m.
- Respondents told CIPFA that their biggest issues in countering fraud were
 - Not having the capacity to identify fraud risk and investigate allegations;
 - Not having effective fraud risk assessment and management; and
 - Barriers to data sharing.

6.4 The Fighting Fraud and Corruption Locally Strategy (FFCL) 2016–2019 is England's counter fraud and corruption strategy for local government. It has been developed by local authorities and counter fraud experts. It is the definitive guide for council leaders, chief executives, finance directors, and all those with

governance responsibilities. The strategy includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape. The production and implementation of the strategy is overseen by the Fighting Fraud and Corruption Locally board, which includes representation from key stakeholders.

- 6.5 The Fighting Fraud and Corruption Locally Companion 2016–2019 is aimed at those in local authorities who undertake work in the counter fraud area. It contains information on the research for the FFCL Strategy on main risks and the counter fraud landscape. A number of themes emerged in the research and have been outlined in this document. The FFCL Companion also contains good practice and a checklist for local authorities to use to help ensure they have the right processes and resources in place. Internal Audit will review the Council's approach against this checklist to identify any required improvements.

CIPFA's Counter Fraud Assessment Tool

- 6.6 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.
- 6.7 The assessment tool contains 68 performance statements which can be used to measure effectiveness against the five key principles of managing the risks of fraud and corruption, which are to:
- Acknowledge responsibility;
 - Identify risks;
 - Develop strategy;
 - Provide resources and
 - Take action.

Completion of the assessment generates a written statement of performance and a summary assessment against each of the principles. The model also facilitates a data exchange and comparison with other organisations. It is not intended to use this facility at the current time however, as the benefits are considered limited.

- 6.8 The assessment has been refreshed in the current year. Shropshire's compliance with CIPFA's Code of Practice on managing the risks of fraud and corruption can be summarised as follows:

Acknowledge responsibility

The Council has reached a good level of performance. The leadership team is acknowledging the risks and demonstrating positive leadership to help build an anti-fraud culture and proactively manage risk. There are some areas where more could be done on a regular basis to ensure the focus is maintained and to publicly demonstrate the Council's anti-fraud commitment.

Identify risks

The Council is meeting the standard set out in the Code of Practice. It has comprehensive arrangements for fraud risk identification and assessment and is working to actively manage those risks.

Develop strategy

The Council is meeting the standard set out in the code of practice. It has in place a strategy to address its fraud and corruption risks and has defined responsibilities for implementation and oversight.

Provide resources

The Council is meeting the standard set out in the code and has in place robust processes for reviewing its capacity and capability which aligns with its counter fraud strategy. It is taking robust steps to improve and maintain its resilience to fraud.

Take action

The Council is meeting the standard set out in the code and is actively implementing the actions identified in its counter fraud strategy and responding effectively to the risks emerging. It reviews its performance and has arrangements in place to provide assurance and accountability.

In summary

The Council is meeting 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. Whilst no organisation is fraud proof, Shropshire Council has taken robust steps to improve its resilience.

6.9 Following review last year of CIPFA's Code of Practice on managing the risk of fraud and corruption, the following improvements are being considered for the Council's Counter Fraud, Bribery and Anti-Corruption Strategy and will be reported to a future meeting of this Committee:

- A revised statement from the leadership team at the front of the strategy recognising the specific threats of fraud and corruption faced by the Council;
- The Council's overall approach to recovery of losses resulting from fraud;
- Reformatting of the strategy to make it easier to read;
- An associated action plan, which will allow for smarter performance monitoring of improvements;

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 due out at the end of January 2017, the outcomes of any resulting investigations will be reported to a future committee meeting.

- 6.11 In early November, the Cabinet office reported that the NFI has identified and prevented fraud, overpayments and errors amounting to £198m in England from April 2014 to March 2016. The highest values uncovered were:
- £85 million of pension fraud and overpayments;
 - £37 million of fraudulent or wrongly received, council tax single person discount (SPD) payments; and
 - £39 million of welfare benefit fraud and overpayments.
- 6.12 The exercise is reported as benefitting public sector organisations that participate by providing paybacks that include maximising the identification of fraudulent individuals, safeguarding taxpayer's money and protecting vital public services. A full copy of the report is available on the NFI's website. Specific benefits for the Council were reported to your meeting in November 2015 following which there has been minimal change to report.

Transparency requirements

- 6.13 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/fraud-data/>

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

- 6.14 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.

Other activities

- 6.15 Following the restructuring in Internal Audit, the service has continued to invest in training to ensure that sufficient officers remain up to date and capable of undertaking investigations in a professional manner as the need arises. Two officers have completed CIPFA's Accredited Counter Fraud Technician Course. In total over a third of the Audit team will have qualifications and/or considerable experience in conducting investigations.
- 6.16 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed and one high risk area and a number of medium risk areas have been identified. These include:

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

6.17 There are a number of steps in place, 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. A Housing Benefits audit is planned in 2016/17 and Internal Audit, in conjunction with Human Resources, continue to 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 overtime claims and a verification exercise of employees to establishment lists are planned to improve controls in these areas and challenge any potential fraud risks.
- The 2016/17 NFI exercise includes data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits which will identify any control issues and potential frauds.

6.18 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:

- Payroll
- Housing benefits
- Personal budgets and direct payments
- Purchasing and contract arrangements
- Cash is reviewed as part of establishment audit reviews
- Sales ledger
- Income collection
- Council tax, single persons discount

In addition, every investigation, where weaknesses have been identified in internal controls, results in a report which lists areas to be improved to help reduce a repeat of any inappropriate activity.

6.19 In summary, the Audit Committee are asked to take assurances as to the level of counter fraud activity currently undertaken with the present 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

Audit Committee, 24 November 2016: **Annual review of Counter Fraud, Bribery and Anti-Corruption activities, including an update on the National Fraud Initiative**

The Bribery Act 2010
NFA Fighting Fraud Together, The strategic plan to reduce fraud
Fighting Fraud Locally: The Local Government Fraud Strategy
Enterprise and Regulatory Reform Act 2013
Protecting the English Public Purse (PEPP 2015) report
Report to Council on 24 September 2015 entitled 'Regulation of Investigatory Powers Policy'
Regulation of Investigatory Powers Policy (Version4 09/2015) adopted with effect from 1 October 2015

Cabinet Member (Portfolio Holder) Malcolm Pate (Leader of the Council) and Tim Barker (Chairman of Audit Committee)

Local Member n/a

Appendices: Not applicable