



Committee and Date

Audit Committee
6th December 2018
1:30 pm

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 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 providing an update to members in response to national and local issues.

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. Potential fraud risks are assessed across the Council and activities in place to mitigate these.
- 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, updated Anti Money Laundering (AML) procedures and guidance, all 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 2017. There has been no new guidance since November and therefore no significant changes are proposed to the existing strategy which can be located on the Council's website.

6. Issues

Counter Fraud, Bribery and Anti-Corruption Strategy

- 6.1 CIPFA's Code of practice on managing the risks of fraud and corruption states that an organisation needs a counter fraud strategy which sets out its approach to managing risks and defining responsibilities for action. Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. The strategy will enable the Council to:
- Acknowledge and understand fraud risks;
 - Prevent and detect more fraud; and
 - Pursue and punish fraud and recover losses.
- 6.2 The strategy reflects best practice from CIPFA's Code of practice on managing the risks of fraud and corruption, the National Fraud Authority (NFA) Fighting

Fraud Strategies and guidance from organisations such as ALARM (the National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).

- 6.3 It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the Council is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).
- 6.4 The temptation may be to ‘pick and choose’ actions. However, the full range of integrated action must be taken forward with the Council’s focus clearly on outcomes (e.g. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).
- 6.5 The strategy continues to emphasise the Council’s remit to reduce losses to fraud, bribery and corruption to an absolute minimum. It:
- Demonstrates links between ‘policy’ work and ‘operational’ work.
 - Shows agreement by both the political and executive authority for the Council’s approach.
 - Acknowledges fraud and identifies accurately the risk.
 - Creates and maintains a strong structure to pursue its remit including:
 - Having the necessary authority and support;
 - Providing for specialist training and accreditation;
 - Completing appropriate propriety checks;
 - Developing effective relationships with other organisations.
 - Enables actions to tackle the problem by:
 - Integrating different actions;
 - Building a strong counter fraud and anti-corruption culture;
 - Having clear actions to deter any problem;
 - Acting to prevent fraud and corruption;
 - Early detection of any issues;
 - Investigating appropriately in accordance with clear guidance;
 - Having clear and consistent sanctions where fraud or corruption is proven;
 - Having clear policies on redressing losses.
 - Focuses on outcomes and not merely activity.
- 6.6 No major changes are proposed to the Strategy. Reference to the 2018 Data Protection Act has replaced the previous Act and a change to the Section 151’s contact telephone details has been noted. All other details remain the same.

National Picture

- 6.7 The Annual Fraud Indicator 2017 report by the UK Fraud Costs Measurement Committee estimates public sector fraud losses at £40.4 billion for the UK. In its report it recognises that public sector has some of the best quality fraud

measurements. It reports a £2.8 billion increase (7.5%) increase in estimated fraud since 2016. This sector includes Central Government, the National Health Service and local government.

6.8 Fraud in local government (excluding benefits) increased from an estimated £7.3 billion to £7.8 billion. The report reflects that every £1 lost to fraud is £1 not spent on local services and with shrinking funding from central government it is increasingly important to reduce any fraud losses. Areas identified as high risk are:

- Blue badge scheme
- Housing tenancy
- Procurement
- Payroll
- Grants and
- Pension.

Benefit frauds continue to be considerable and include housing benefit and council tax reduction. Housing benefit fraud is now investigated by the Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS), though it is important that it is still considered to ensure that cases are correctly referred for action. All these risks are considered when completing the Council's fraud risk assessment.

6.9 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.

6.10 Following review against CIPFA's Code of Practice on managing the risk of fraud and corruption, and the FFCL companion in November 2017, improvements were made to the Council's Counter Fraud, Bribery and Anti-Corruption Strategy and an action plan aligned to the strategy. These improvements built on the principles already adopted and in place.

6.11 The following demonstrates delivery against the agreed Action Plan and new developments the Council proposes over the medium-term future to further improve its resilience to fraud and corruption.

Action Plan

Action	Implementation Date and Update
To proactively use the results of previous fraud risk assessments and publicly available information from	Spring 2017

Action	Implementation Date and Update
recognised organisations i.e. CIPFA, Grant Thornton, to direct counter fraud resources in the annual Internal Audit Plan.	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 through directorates and management meetings
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.	March 2018 Completed and ongoing
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.	Completed and ongoing annually in November
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 Completed and ongoing

CIPFA tracker

6.12 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.

6.13 The Council participated in CFaCT, the key results from which are summarised below and a full report is available from the CIPFA website.

- The total estimated value of fraud detected or prevented by local authorities in 2017/18 is £302m, £34m less than last year's total.
- The average value per fraud has also reduced from £4,500 in 2016/17 to £3,600 in 2017/18.
- The number of frauds detected or prevented has risen to 80,000 from the 75,000 cases found in 2016/17.
- The number of serious or organised crime cases doubled to 56 in 2017/18.
- The amount lost to business rates fraud increased significantly to £10.4m in 2017/18 from £4.3m in 2016/17.
- Blue badge fraud also increased by £3m to an estimated value of £7.3m for cases prevented/ detected in 2017/18.
- For 2017/18 the three greatest areas of perceived fraud risk are procurement, council tax single person discount and adult social care.
- For 2017/18 the four main types of fraud by volume that affect local authorities are council tax, housing, blue badge and business rates.

CIPFA's Counter Fraud Assessment Tool

6.14 This 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 within this report is reflective of the improvements identified when applying this tool.

6.15 Whilst no organisation is fraud proof, Shropshire Council continues to take robust steps to improve its resilience and 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)

6.16 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,

6.17 From the 1 April 2016 to the 31 March 2018, the NFI have identified and prevented in England £275.3m fraud, overpayments and errors. In England the main categories of fraud are:

- Pension fraud and overpayments (£144.8m)
- Fraudulently or wrongly received, council tax single person discount (£32.6m)
- Housing benefit fraud and overpayment (£24.9m)

Further significant results were also produced from the exercise:

- 58 social housing properties recovered
- 7,601 false applications were removed from housing waiting lists
- 234,154 concessionary travel passes were cancelled
- 1,613 cases of incorrect Council Tax reduction were identified
- 31,223 blue badges were revoked or withdrawn and 275 cases where a council continued to make a mistaken payment to private care homes for deceased persons

6.18 The same exercise identified outcomes by risk area in the following order

- Pensions
- Council tax
- Waiting lists
- Housing benefits
- Blue badges
- Concessionary travel
- Tenancy fraud
- Council tax reduction scheme
- Residential care homes
- Trade creditors
- Payroll
- Right to buy
- State benefits and
- Personal budgets

The NFI continue to improve their data matching processes and a copy of their full report can be located here;

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737146/National-Fraud-Initiative-Report-2018.pdf

6.19 Specific results for Shropshire Council of the 2016/17 data matching exercise were provided to the Committee at your November 2017 meeting. Members will recall that the exercise is undertaken every two years and officers are currently working on the 2018/19 work programme. Data has been submitted, matches are currently underway and the results from these will be available from the 31st January for investigation and appropriate action.

Transparency requirements

- 6.20 Legislation on transparency 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 2018 (RIPA) Activity

- 6.21 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. New RIPA Codes of Practice dealing with directed surveillance and the use of covert human intelligence sources (CHIS) have been approved by the Government and came into force in August 2018. There has been a considerable number of amendments, which range from minor one letter or word changes to whole new paragraphs on new topics. The changes have been made to provide consistency across the codes and to add further clarity with new and revised examples rather than introducing any fundamental changes to the way in which the Council needs to approach surveillance activities.
- 6.22 There has been a change to the authorisation period for a juvenile covert human intelligence source ('Juvenile CHIS'), i.e. using a child/young person under the age of 18 as an informant, which came into force in July 2018. The authorisation period has been extended from one month to four months. This type of surveillance activity has never been used by the Council and would, in any case, only be authorised in very exceptional circumstances.
- 6.23 The Investigatory Powers Commissioner's Office (IPCO) has taken over responsibility for oversight of investigatory powers from the Interception of Communications Commissioner's Office (IOCCO) and the Office of Surveillance Commissioners (OSC). IPCO has taken over the inspection and audit functions of these bodies; however, the OSC Procedures and Guidance 2016 document remains current and officers continue to operate within the guidelines set out in this guidance.
- 6.24 Minor amendments will be required to the Council's RIPA policy to reflect the changes that have been introduced by the new codes and this work will be undertaken in due course

Whistleblowing Policy

- 6.25 The Council has a whistleblowing policy for the public and one for 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.
- 6.26 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.

Anti-Money Laundering (AML) Procedure

6.27 Both the Council's Anti-Money Laundering procedure and guidance have been updated to reflect The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and will be reviewed annually. Communication of the changes has been through updated documents on the Council's websites, discussions with Directors and notices on the Intranet alerting employees. The AML Officer and her deputies have received refresher training and are making internal training and awareness sessions available to appropriate employees. In addition, Directors have been asked to spread news of the updates; identify any money laundering risks in their areas to be shared at least annually with the AML Officer and to identify employees who need training.

Serious Organised Crime Checklist

6.28 Local Authority (LA) procurement is at risk of infiltration from serious and organised crime and organised crime groups could be benefitting from public sector contracts. In 2013, it was estimated that £2.1 billion of fraud was perpetrated against local government (National Fraud Authority Annual Fraud Indicator 2013) and the Government's Serious and Organised Crime Strategy published in 2013 reported that it costs the UK more than £24 billion a year.

6.29 Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Organised crime groups may seek to benefit from public services in different ways, including to raise money through fraudulent activity and to use businesses / services used by LA's to launder criminal proceeds. In this way public money can be lost to LA's and can ultimately fund other illegal activity.

6.30 In 2017, the Home Office provided a Serious and Organised Crime report and checklist which highlighted that assessing the risk from serious and organised crime and corruption is essential in allowing the Council to identify areas of concern, potential vulnerabilities and to act to strengthen processes and structures that safeguard public money. The checklist evaluates our response and activities in relation to:

- Awareness, Strategy, Guidance and Training
- Risk Management
- Communication and Information/ Intelligence Sharing
- Whistleblowing
- Assurance
- Operational controls for
- Licensing
- Planning/ Development management
- Social Housing
- Procurement
- Insider threat

- 6.31 Directors, Heads of Service and key Procurement Officers have completed and evidenced activities in the checklist providing a balanced assessment of the Council's exposure to the risks. In the main, at this high level, risks appear well managed and where improvements can be made, actions have been highlighted as part of an improvement plan.
- 6.32 The Council's Commissioning and Assurance Board is overseeing operational management of these actions and a final review will be conducted in March 2019 at the twelve-month stage, the results of which will be reported to Members.

Awareness and training

- 6.33 New fraud awareness training has been introduced on the Council's eLearning tool, Leap into learning. This has been communicated to Directors and their employees directly.
- 6.34 Staff and members are being surveyed to explore their awareness and opinion on the ethical culture of the Council. Questions in both surveys explore awareness and knowledge of counter fraud procedures including the availability of the whistleblowing policy. Data from both surveys will be collated and considered in the new year.

Qualified officers

- 6.35 Internal Audit continues to have 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. Given resource shortages in the overall Audit team in the current year, time has been focused on investigations over proactive prevention work. Balanced against this is that lessons learnt from investigations are used to inform management of control issues and the need for improvements to prevent reoccurrences. These reports are shared with Directors.

Shropshire Council counter fraud risks and plans

- 6.36 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed and shared across all directorates. There is no change to the high-risk area of housing benefits. Eleven medium risk areas continue to be identified. These are the same as last year. 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

6.37 There are several 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.
- An Internal Audit review of arrears payments to employees is underway. To establish the root cause of any such payments and follow up if any misconduct is suspected.
- The 2017/18 NFI exercise including data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits is underway. The results of which will 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 Council, a full IT risk assessment is conducted and audit reviews planned and completed in these specialist areas.
- Internal Audit resources are deployed to provide assurance and advice in respect of the Enterprise Resource Planning system project.

6.38 The current year audit plan includes several 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:

- Internet controls
- Website management
- Wide area networking
- Monitoring use of facilities
- Cash offices regularity
- Contracts and tendering
- Debt recovery
- Direct payments children
- Final grant claims
- Housing benefits
- Income collection
- Parking – cash collection
- Payroll
- Pensions

- Personal budgets and direct payments
- Primary school income collection
- Procurement arrangements
- Procurement cards
- Public health contracts
- Purchase ledger
- Sales ledger
- Secondary school income collection
- Sickness management

6.39 In summary, the Audit Committee are asked to consider and take assurances as to the level of counter fraud activity undertaken within the available 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

CIPFA Fraud and Corruption Tracker (CFaCT) survey

National Fraud Initiative (NFI) Report 2018

Home Office Serious and Organised Crime report and checklist 2017

Annual Fraud Indicator 2017, UK Fraud Costs Measurement Committee

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