



## Committee and Date

Audit Committee

14<sup>th</sup> February 2023

10:00am

Item

Public



# Annual Review of the Counter Fraud, Bribery and Anti-Corruption Strategy and Activities, including an Update on the National Fraud Initiative

<b>Responsible Officer:</b>	Barry Hanson		
email:	<a href="mailto:barry.hanson@shropshire.gov.uk">barry.hanson@shropshire.gov.uk</a>	Tel:	07990 086409
<b>Cabinet Member (Portfolio Holder):</b>	Lezley Picton, Leader of the Council Brian Williams, Chairman of Audit Committee		

## 1. Synopsis

Whilst the Council can never be free from fraud activities, it continues to be focused on acknowledging, preventing and pursuing fraud, bribery and corruption and Audit Committee members are asked to reaffirm the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.

## 2. Executive Summary

- 2.1. 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, investigation and subsequent reporting of fraud, bribery and corruption.
- 2.2. The Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed and 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 in the fight against fraud, bribery and corruption providing an update to members in response to national and local issues.

### 3. Recommendations

- 3.1. 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

### 4. Risk Assessment and Opportunities Appraisal

- 4.1. 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.
- 4.2. 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.
- 4.3. 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.
- 4.4. 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.

### 5. Financial Implications

- 5.1. All revisions and activities can be met from within existing budgets.

### 6. Climate Change Appraisal

- 6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting and mitigation; or on climate change adaptation. Therefore, no effect to report.

## 7. Background

- 7.1. 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, Anti Money Laundering (AML) procedures and guidance, all supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 7.2. The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution, last reviewed and updated in November 2021. In reviewing the Strategy, only minor adjustments have been made to reflect structure changes at the Council and the move to a more digital approach. All proposed changes are identified in the Strategy in bold italic, underlined font
- 7.3. The Strategy can be located on the Council's website alongside Speaking up about Wrongdoing policies for both staff and the public and Anti Money Laundering (AML) procedures and guidance. A review of these has identified minor changes which have been reflected in the Strategy and supporting policies, procedures and guidance.

## 8. Additional Information

### Counter Fraud, Bribery and Anti-Corruption Strategy

- 8.1. 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. This aligns with CIPFA's Code of practice on managing the risks of fraud and corruption and recognises that 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.
- 8.2. The Strategy reflects best practice from 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).
- 8.3. 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).
- 8.4. 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.).

- 8.5. 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. Has robust arrangements and executive support to ensure counter-fraud, bribery and corruption measures are embedded throughout the Council.
  - 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 governance, 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.

## National Picture

### CIFAS Fraudscape 2022

8.6. CIFAS is a fraud prevention service in the United Kingdom. It is a not-for-profit membership association representing organisations from across the public, private and voluntary sectors. In their 2022 fraudscape document, they report over 360,000 cases of fraudulent conduct reported to the National Fraud Database (NFD), which is close to pre-pandemic levels. High risk areas of fraud include:

- Identity fraud has grown by 22% to 226,000, 63% of all cases in 2021.
- Misuse of facility <sup>1</sup>increased by 17% and accounted for 17% of cases in 2021.
- There has been a 53% rise in identity fraud victims were between 31 and 40 years.
- Over 37,000 cases of facility takeover were recorded in 2021, with 47% occurring online and 43% through telephony channels. A large number of the cases related to unauthorised security or personal detail changes to accounts.
- Nearly 270 individuals were reported in relation to insider threat. 41% of these related to dishonest actions with a significant rise in the theft of IT equipment. The rise in theft may be due to reduced controls to monitor staff working remotely or staff exiting employment without returning their

<sup>1</sup> Misuse of Facility cases primarily relate to misuse of bank accounts

equipment. False employment applications accounted for 39% of cases in this category.

8.7. The CIFAS report summarised by stating that:

- Volumes of cases recorded to the NFD are close to pre-pandemic levels, with over 360,000 cases.
- The sophistication of cyber enabled attacks such as phishing and smishing continues to grow, as does the quality of false documentation provided to support subsequent fraudulent applications.
- There is a real concern that due to the rise in living costs, criminals will look to target loan products and deferred credit services and exploit those who have more relaxed criteria than others.
- Organisations must ensure that as remote/hybrid working agreements develop and increase in popularity, their policies and procedures are fit for purpose.
- The increase in the cost of living may tempt staff members into committing dishonest conduct or becoming more vulnerable to staff approaches. It is therefore essential to have appropriate monitoring in place to audit employee behaviour and ensure wellbeing checks are carried out regularly.
- A significant concern is the rise in insider threat as a service, where individuals are actively recruited to work in particular roles to carry out dishonest activity and exploit policies and procedures.

8.8. The full report is available at: <https://www.fraudscape.co.uk/#welcome>

**Fighting Fraud and Corruption Locally (FFCL); A Strategy for the 2020s**

8.9. The Fighting Fraud and Corruption Locally Strategy (FFCL) 2020 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. It 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.

8.10. The Audit Committee approved an Action Plan to ensure that the Council continues to protect its assets and further improve its resilience to fraud and corruption. The following has been and continues to be delivered:

**Action Plan**

Action	Implementation Date and Update
To proactively use the results of previous fraud risk assessments and publicly available information from recognised organisations to direct counter fraud resources in the annual Internal Audit Plan.	Completed and ongoing.

Action	Implementation Date and Update
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.	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.
Refresh of the Council's Money Laundering Policy, communication of and training on.	Completed and ongoing.

### **CIPFA Fraud and Corruption Tracker (CFaCT) annual survey**

8.11. 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.

8.12. CIPFA have not undertaken the annual survey since 2020, it is unclear if this will be continued in the future.

### **CIPFA's Counter Fraud Assessment Tool**

- 8.13. 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. The tool is used as a basis for ongoing improvement and development planning alongside 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.
- 8.14. 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)**

- 8.15. 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.
- 8.16. In December 2022 the Cabinet Office reported the 2020/21 exercise identified and prevented £443m fraud and error, £417m in England, the main categories of which were:
- Pension fraud and overpayments (£250m)
  - Fraudulently or wrongly received, council tax single person discount (£44.7m)
  - False housing applications (£21.8m)
- 8.17. The December 2022 national report in respect of the 2020/21 data matching exercise is available online [2022-12-02 NFI report 2022\\_12v3 - JQ.pdf](https://publishing.service.gov.uk/2022-12-02/NFI-report-2022-12v3-JQ.pdf) ([publishing.service.gov.uk](https://publishing.service.gov.uk))
- 8.18. Results for Shropshire from the 2020/21 data matching exercise were reported to the Committee in February 2022, there has been no change to this figure which remains as £44,243.91.
- 8.19. The Council is currently submitting data for the 2022/23 matching process and once analysed the NFI will share the results for investigation and reporting to the Audit Committee.

### **Transparency Requirements**

- 8.20. 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<sup>2</sup>.

### **Update on Regulation of Investigatory Powers Policy and Guidance (RIPA) Activity**

- 8.21. RIPA Policy and Guidance sets out the approach the Council will take with respect to the authorisation and use of surveillance activity to deliver the Council's statutory and public duties, whilst protecting individuals' right to privacy. The Council's existing Regulation of Investigatory Powers Policy was adopted in August 2015, and updated in February 2022<sup>3</sup>. The updates ensure that any surveillance activities undertaken by the Council are compatible with the human right to privacy by ensuring compliance with the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 (IPA), the European Convention on Human Rights (ECHR) and the Human Rights Act 1998 (HRA). The Audit Committee's governance role is reinforced in the refreshed policy and guidance.
- 8.22. The Policy addresses the use of activities that involve:
- the surveillance of individuals;
  - the use of undercover officers and informants, known as Covert Human Intelligence Sources (CHIS); and
  - the obtaining of communications data.
- 8.23. All Council applications to acquire communications data are processed through the National Anti-Fraud Network who act as the Council's Single Point of Contact (SPoC). National Anti-Fraud Network (NAFN) engages with the applicant and the Office for Communications Data Authorisations (OCDA) to obtain authorisations on the Council's behalf. A senior manager at service manager level or above within the Council must be made aware of all applications before they are submitted to NAFN for processing.
- 8.24. Following the Investigatory Powers Commissioner's Officer (IPCO) inspection in September 2021 recommended RIPA training for key officers was completed in October 2022.

### **Whistleblowing Policy**

- 8.25. 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.
- 8.26. 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 website; 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.

<sup>2</sup> <https://shropshire.gov.uk/open-data/>

<sup>3</sup> [RIPA POLICY AND GUIDANCE \(shropshire.gov.uk\)](https://shropshire.gov.uk/ripa-policy-and-guidance/)



### **Anti-Money Laundering (AML) Procedure**

8.27. There are no revisions proposed to the Council's Anti-Money Laundering procedure and guidance, they continue to reflect The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. Training is available on the Council's electronic training tool, Leap into Learning. The AML Officer and deputies continue to stay aware of their requirements. In addition, Executive Directors continue to spread awareness, identify any money laundering risks in their areas to be shared at least annually with the AML Officer and identify employees who need training.

### **Serious Organised Crime Checklist**

8.28. 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 local authorities to launder criminal proceeds. In this way public money can be lost to local authorities and can ultimately fund other illegal activity.

8.29. The Home Office Serious and Organised Crime report and checklist provides a methodology to assess the risk from serious and organised crime and corruption and 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

8.30. Executive Directors, Heads of Service and key Procurement Officers continue to evidence activities against 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. The Council's Commissioning and Assurance Board continues to oversee operational management of these actions.

### **Awareness and training**

8.31. Fraud awareness training is available on the Council's eLearning tool, Leap into Learning and continues to result in positive feedback from recipients. Questions explore awareness and knowledge of counter fraud procedures including the availability of the whistleblowing policy. Audit Committee members have been provided access to the training to complete and experience it first-hand.

### Qualified officers

8.32. Internal Audit has officers trained, up to date and capable of undertaking investigations in a professional manner as the need arises. One officer is an accredited CIPFA Counter Fraud Technician. Other members of the Audit team have considerable experience in conducting investigations. Given current demands, 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 Executive Directors.

### Shropshire Council counter fraud risks and plans

8.33. 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 and cybercrime. Grant risks have fallen out of this category reflecting the reduced value and quantity of business grants being managed.

#### High

- Housing benefits
- Cybercrime

Thirteen medium risk areas continue to be identified; the list of risks is:

#### Medium

- Payroll, fraudulent travel, expense, overtime and timesheets
- Pension continues after death
- Employee commits benefit fraud
- Inappropriate and incorrect contract awards
- False invoicing
- Debtors; claiming false exemptions, failing to raise a debt, suppressing recovery action
- Housing applications for financial assistance with repairs, homelessness and lettings
- Council tax discounts
- NDR reliefs
- Parking abuse including blue badge use/disabled parking
- Direct payments / personal budgets
- Property and taxi licenses
- School, diversion of resources.

8.34. 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. A Housing Benefit audit is currently in progress as part of the 2022/23 Audit plan.

- The 2022/23 NFI exercise including data matching for payroll, pensions, creditors, housing benefit, council tax, concessionary travel passes, blue badges, resident parking permits, taxi driver licences are reported on within this report.
- The council successfully awarded £164 million of COVID-19 grants funding to businesses across Shropshire between April 2020 and March 2022. 22 different business grant programmes were set up to help local businesses survive and respond to the pandemic, with over 32,000 individual grant payments made during the period. To support the allocation of grants to businesses during the COVID pandemic, 2022 showed continuing due diligence applied through the NFI database; companies house enquiries and by using Spotlight, a Government initiative to reduce losses from fraud and error.
- To reduce the risk of cybercrime and the impact it would have on all areas of the Council, we are completing an ongoing programme of IT Audit work of key infrastructure systems, including internet security, firewall management, Microsoft Azure and Office 365 and Encryption. We are also part of a multi-agency working group which is developing a draft Local Resilience Forum ICT and Cyber Response Framework to manage the tactical aspects of a multi-agency response to a cyber-attack.
- Internal Audit resources have been deployed to provide assurance and advice in respect of initiatives such as; data analytics for financial systems; recruitment processes; procurement / implementation of new systems and internal control self-assessments.
- 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:
  - IT reviews, as detailed earlier in this section
  - Payroll
  - Payroll data analytics (quarterly)
  - Sickness Management and other Leave
  - Travel and Subsistence
  - Procurement Cards
  - Counter fraud work, 2022 NFI participation, review of policies and delivery of training and awareness campaigns
  - Debt recovery
  - Sales ledger
  - Grant reviews across all Council services
  - Contracts and tendering including financial evaluations

**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 2020  
The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017  
Regulation of Investigatory Powers Policy February 2022  
CIPFA Fraud and Corruption Tracker (CFaCT) survey report 2020  
National Fraud Initiative (NFI) Report 2022  
Home Office Serious and Organised Crime report and checklist 2017  
Cifas Fraudscape 2022 Full Digital Report

---

**Local Member:** N/A

**Appendices**

Appendix A: Counter Fraud Bribery and Anti-Corruption Strategy

---