

North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 14TH NOVEMBER 2019

SUBJECT OF REPORT: COUNTER FRAUD UPDATE REPORT, ANTI-FRAUD AND CORRUPTION STRATEGY 2019 AND UPDATED FRAUD POLICIES

TOWN OR PARISH: NONE

OFFICER/MEMBER PRESENTING: JEFF WRING, AUDIT WEST

KEY DECISION: NO

RECOMMENDATIONS

The Audit Committee is asked to note the Counter Fraud Update Report, and review the updated Anti-Fraud & Corruption Strategy and associated policies as detailed below:

- a. Note work carried out by the Internal Audit team related to Anti-Fraud & Corruption
- b. Review and comment on the updated Anti-Fraud & Corruption Strategy (*Appendix 1*)
- c. Review and comment on the updated Whistle Blowing Policy (*Appendix 2*)
- d. Review and comment on the updated Anti-Money Laundering Policy & Guidance (*Appendix 3*)
- e. Review and comment on the updated Anti-Bribery & Corruption Policy (*Appendix 4*)

SUMMARY OF REPORT

The report outlines the work carried out to review and update the Anti-Fraud & Corruption Strategy and related policies which are being presented for consultation. It also provides the Audit Committee with an overview on the National Fraud Initiative (NFI) and information related to investigations carried out by the Internal Audit function.

1. POLICY

- 1.1 The Anti-Fraud & Corruption Strategy 2019 and associated policies for consultation.

2. DETAILS

- 2.1 This is an update to the Audit Committee for the work achieved against the Counter Fraud Action Plan for 2019-20 and continues our work to maintain the policies and procedures for North Somerset Council. Also, this report presents the updated Anti-Fraud and Corruption Strategy.

3. NATIONAL PICTURE AND EMERGING FRAUD RISKS

- 3.1 The latest edition of the annual CIPFA Tracker Report 2018 was published in December 2018 and detailed the main themes for national fraud indicators within Local Government. This can be accessed via the CIPFA website:
www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker

The tracker report is supported by the National Crime Agency (NCA), the National Audit Office (NAO) and the Local Government Association (LGA). The annual financial loss to fraud in the UK is estimated at £20.6 Billion annually, with £2.1 Billion of this being in local government.

- 3.2 Known fraud risk areas in Local Authorities include:

- a. Council Tax Single Person Discount Fraud
- b. Disabled Parking Concessions (Blue Badge)
- c. Business Rates
- d. Procurement Fraud

Emerging Fraud Risks

- 3.3 Information regarding known and emerging fraud risks are obtained from a number of organisations and professional bodies. One of these is the National Anti-Fraud Network (NAFN). It is the largest shared service in the country, managed by, and for the benefit of its members, and is hosted by Tameside MBC. Its members including North Somerset Council, share information and NAFN disseminate this to Councils and relevant teams in Councils.
- 3.4 With the increased reliance on ICT, exposure to fraud has changed and it's necessary to regularly assess risks and the framework of internal controls. It is important for Councils to be aware of the rapidly changing environment of fraud and corruption.

4. NATIONAL FRAUD INITIATIVE (NFI)

- 4.1 The Internal Audit function also carry out other anti-fraud activity, such as co-ordinating the National Fraud Initiative (NFI) on behalf of the Council's Section 151 Officer.
- 4.2 The NFI is a Cabinet Office initiative matching data from a large number of public and private sector organisations. These organisations provide data from their systems as prescribed by the Cabinet Office. The data is then matched and data matching reports are made available for each participating organisation to review. It is for each organisation to make the necessary enquiries and any identified fraud is recorded within the NFI system to enable the effectiveness of the initiative to be monitored. For Local Authorities such as North Somerset Council, example data sets for matching purposes include; Housing Benefit, Adult Social Care Personal Budgeting and Disabled Parking (Blue Badges). Work on the current initiative (2018/19) is ongoing.

5. INTERNAL AUDIT TARGETED WORK AND INVESTIGATIONS

- 5.1 The risk of Fraud and misappropriation is considered during all internal audit planning activity. Firstly, whilst completing the Annual Audit Plan i.e. the audit reviews planned

to be carried out during the financial year, and secondly whilst planning the objectives and focus of each review to be carried out, i.e. the individual work programme.

5.2 Targeted work has been undertaken throughout the year and an example of this work is highlighted below:

5.3 Disabled Parking Concession (Blue Badge)

5.3.1 It is estimated that approximately 2% of parking revenue is lost to Blue Badge fraud. The majority of allegations relate to the misuse of Blue Badge parking concessions by persons other than the badge holder. Local Authorities administer Blue Badges to allow disabled people with severe mobility problems to access goods and services by allowing them to park close to their destination. Over 2.4million badges are in circulation nationwide and are administered by local authorities nationally.

5.3.2 North Somerset Council currently has a “standstill” caseload of badges in circulation of 12,331 and The Department for Transport has confirmed 4,036 new badges were issued in the year ending 2018. In the last 12 months, 140 badges were seized (primarily due to being out of date), 49 were considered for prosecution and 20 were taken to prosecution.

5.3.3 It is estimated that the number of badges issued will increase due to the recent changes to legislation in August 2019, opening the applications to service users who are affected by ‘hidden disabilities’ including mental health disability, and not just physical disability.

5.3.4 With the increase in badges in use it is expected that fraudulent use will also increase. Fraudulent use of blue badges results in several implications including loss of car parking income and disruption to traffic flow. It is therefore important that cost effective enforcement action is taken to prevent and detect fraudulent use.

5.3.5 A recent review of the procedures and processes for the reporting of Blue Badge fraud has been examined and is being mapped out, with the aim to ensure effective controls and communication throughout the various teams in the Council who are involved with Blue Badges. This will also enable a clear reporting line where the public and employees will be further encouraged to report fraud.

5.4 Investigations

5.4.1 During Internal Audit investigations, the themes of prevent and pursue as recorded in the Anti-Fraud and Corruption Strategy are the focus of the work of the Auditor. The key objectives are to:

- a) Identify the breakdown in controls and correct this to avoid further losses
- b) Collect evidence to be able to pursue responsible individuals, i.e. through criminal prosecution or a disciplinary route.

5.4.2 There have been two Audit investigations so far in 2019-20 financial year. These are described within the Internal Audit Performance Update Report and repeated below for information.

5.4.3 In respect of the first investigation, Internal Audit were contacted by the Integrated Transport Unit (ITU) following some issues that had been identified with a taxi company with whom the council had contracted to provide Home to School Transport.

Various issues existed that broadly related to service delivery and professional conduct, which were addressed by colleagues across the council. As part of this overall work, Audit were asked to complete an analysis of invoices and associated data from the taxi company.

Whilst the detailed conclusions from this review are confidential, the summary finding was that any variation in journeys/ amounts charged to that expected is of a negligible amount and was considered due to error rather than anything untoward.

- 5.4.4 The second investigation remains ongoing and therefore details of the specific issue and service area it relates to cannot currently be reported in full. However, it can be confirmed that it relates to a whistle blowing allegation of alleged fraudulent practice. The audit team are continuing to work with the relevant Directorate to establish whether the allegations can be substantiated and outcomes will be reported to the Committee.

6. STRATEGY AND POLICY UPDATES

- 6.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre has produced a Local Government Counter Fraud and Corruption Strategy. This strategy promotes three key themes 'Acknowledge, Prevent and Pursue'. We have adopted these themes in this Council's Anti-Fraud & Corruption Strategy.
- 6.2 The Council's Anti-Fraud & Corruption Strategy is the "umbrella strategy" to bring together all the fraud related policies. The Strategy document and policies have been reviewed during this financial year with the objective of ensuring that the Council is proactive in preventing and detecting fraudulent activities and corrupt practices and take the necessary action to punish those involved and recover losses.
- 6.3 The format of the Strategy has been redefined from previous versions to improve its visual appearance, making it easier to read and understand. The Strategy includes an Action Plan linked to the CIPFA principles – 3 key themes, headed 'Strategic Objectives 2019-20'.
- 6.4. Policies linked to the Strategy have been reviewed and the three policy documents have been amended as recorded below:

Whistle Blowing Policy 2019 – amendments include updated contact details; Prescribed Persons Order updates; revised reporting form and online reporting tool.

Anti-Money Laundering Policy and Guidance 2019 – amendments include updated contact details; updated legislation to include amendments under the Money Laundering Regulations 2017 which recommended that councils maintain internal procedures to prevent the use of services for money laundering and adopting a risk-based approach, particularly in the conduct of our due diligence.

Anti-Bribery & Corruption Policy 2019 – changes limited to amending contact details.

7. CONSULTATION

As part of our consultation process the Audit Committee is asked to note the Counter Fraud Update Report, and review the Anti-Fraud & Corruption Strategy and associated policies

8. FINANCIAL IMPLICATIONS

There are no direct financial implications from this report which is focused on strategy and policy review.

9. LEGAL POWERS AND IMPLICATIONS

There are no direct legal implications from this report which is focused on strategy and policy review.

10. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. These are referenced or noted, where appropriate, throughout the report and associated appendices.

11. RISK MANAGEMENT

It is recognised by Government that the current economic climate in the United Kingdom and the Government Policy of significantly reduced public spending have the potential to increase the risk of fraud and irregularity as never seen before in the Public Sector. As the Council makes continued cuts in its future budgets, it is essential that it continues to maintain strong defences against fraud and irregularity, directing its resources most effectively to mitigate the areas of highest risk.

12. EQUALITY IMPLICATIONS

Embedded within the approach to fraud prevention is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

13. CORPORATE IMPLICATIONS

There is a requirement to have a strategy which applies to all aspects of the council's business and has in place policies and processes to support the prevention and detection of fraud and corruption.

14. OPTIONS CONSIDERED

None.

AUTHORS

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APPENDICES

Appendix 1 - Anti-Fraud & Corruption Strategy

Appendix 2 - Whistle Blowing Policy

Appendix 3 - Anti-Money Laundering Policy & Guidance

Appendix 4 - Anti-Bribery & Corruption Policy

BACKGROUND PAPERS

Counter Fraud Strategy 2016