

# North Somerset Council

## Report to the Audit Committee

**Date of Meeting: 28<sup>th</sup> April 2022**

**Subject of Report: Counter Fraud Update Report, Anti-Fraud and Corruption Strategy 2022-24, and Updated Fraud Policies**

**Town or Parish: None**

**Officer/Member Presenting: Peter Cann, 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 in relation 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*)

### 1. 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.

### 2. Policy

- 2.1 The Anti-Fraud & Corruption Strategy 2022 and associated policies for consultation.

### 3. Details

- 3.1 This is an update to the Audit Committee on the Counter Fraud work achieved in 2021-22 and continues our work to maintain the policies and procedures for North Somerset Council. This report also presents the updated Anti-Fraud and Corruption Strategy.

## **4. National Picture and Emerging Fraud Risks**

- 4.1 The CIPFA Fraud and Corruption Tracker (CFaCT) survey is the definitive survey of fraud and corruption activity in local government. It tracks the level of fraud and corruption local authorities have detected, the number of investigations undertaken and the types of fraud encountered.

The latest edition of the annual CIPFA Tracker Report was published in 2020 and detailed the main themes for national fraud indicators within Local Government. This can be accessed via the CIPFA website:

<https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fraud-and-corruption-tracker>

The tracker report is supported by the National Audit Office (NAO) and the Local Government Association (LGA). The annual financial loss to fraud in the UK public sector is estimated at £40.3bn annually, with £7.3bn of this being in local government.

- 4.2 Known fraud risk areas in Local Authorities include, Council Tax Fraud, Disabled Parking Concessions (Blue Badge), Business Rates and Housing Fraud.

During 2021/22, the Internal Audit Service undertook work on these related areas:

- i) Council Tax Payments and Collection (audit opinion Level 3)
- ii) Business Rates (NNDR) Income (audit ongoing)
- iii) Housing – Jigsaw System (audit opinion Level 3)

Audit work on Blue Badges was completed in 2020/21 and had an overall opinion of 'weak'. This work was followed up in 2021/22 to confirm that the recommendations made in the review had been implemented.

### **4.3 Emerging Fraud Risks**

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). NAFN are one of the largest shared services in the country, managed by, and for the benefit of its members, and is hosted by Tameside MBC. Currently, almost 90% of local authorities are members, including North Somerset Council.

A specific fraud risk that has emerged post-pandemic is the cost-of-living crisis. This will be actively considered throughout the year during our planning and subsequent work, including how we may be able to use data analytics to help detect fraud.

## **5. National Fraud Initiative (NFI)**

- 5.1 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.

- 5.2 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).

### 5.3 Results from 2021/22 NFI Exercise

The results from the latest exercise are as follows:

Report title	Total matches	Processed	In Progress	Frauds / errors	Identified loss	Estimated Savings
Housing Benefits	64	46	9	2	£2,629.80	£4,826.22
Council Tax Reduction Scheme	402	357	3	30	£19,984.57	£5,190.57
Payroll	13	13	0	0	£0	£0
Blue Badges	804	804	0	60	£0	£34,500
Waiting List	99	99	0	0	£0	£0
Creditors	1430	1430	0	1	£647	£647
Procurement	18	18	0	0	£0	£0
Covid-19 Business grants	71	65	6	1	£0	£0
<b>TOTAL</b>	<b>2901</b>	<b>2832</b>	<b>18</b>	<b>94</b>	<b>£23,261.37</b>	<b>£45,163.79</b>

An invitation has been extended to Members of the Audit Committee to attend a workshop hosted by the Audit Service to discuss the NFI exercise and these specific findings in greater detail.

## **6. Internal Audit Targeted Work and Investigations**

### 6.1 Internal Audit Planning and Reviews

The risk of Fraud is considered during all internal audit planning activity. This includes from initially building the Annual Audit Plan (i.e. the audit reviews planned to be carried out during the financial year) through to considering the objectives, fraud risks, controls and focus of each review to be carried out, i.e. each individual work programme. As described in section 4.2, targeted work has been carried out in 2021/22 on known key fraud risk areas, including Council Tax, Business Rates and Housing.

### 6.2 COVID-19 Grant Payments

In addition to the above, a large amount of work was also completed on COVID-19 Grant Payments. This was detailed at length, formally and informally, to the Audit Committee throughout the year and a COVID-19 Business Grant Funding Internal Audit position statement summary report was also produced in September and discussed in a workshop with members in October 2021.

Further Business Grants were announced following the outbreak of the Omicron variant which affected many businesses in December 2021. To prevent fraud, pre-payment checks were once again undertaken by the Audit service using the Government's 'Spotlight' tool to ensure the validity of grant applicants.

### 6.3 Data Analytics

Data analysis and data matching are important tools for identifying fraud and error in local government. The Fighting Fraud and Corruption Locally Strategy for the 2020s recommends that local authorities should share data across its own departments and engage in the use of data analytics as a key response to fraud.

As well as participating in the National Fraud Initiative (see section 5), Audit West wishes to support effective data analysis with the use of existing information that the authority already holds. Therefore, internal data matching takes place regularly throughout the year and this is partly completed via IDEA – an internal audit data analytics software tool.

The matches were completed primarily on data from the payroll and creditor system and we are pleased to report that no instances of fraud or serious error were identified. The key findings were as follows:

- Potential duplicate payments were identified. These were investigated further and confirmed not to be duplicates, which provides positive assurance over the functioning of the accounts payable system.
- 22 employees were identified as not having received any payments for twelve months. HR agreed to remove any staff members no longer required, which will reduce the risk of fraud and error.
- There were eight instances of payments made to employees where the bank account details were the same as that of another employee. There were confirmed as being bonafide employees, i.e. not fraudulent 'ghost' employees.
- A large number of duplicate suppliers were identified as part of the matches, however there can be many legitimate reasons for the suppliers to be on the system more than once, for example where suppliers require payments to be made to different accounts. These exercises continue to provide a regular opportunity for the Accounts Payable team to review suppliers and cleanse the databases in order to reduce the risk of fraud and error.

### 6.4 Investigations

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.

There were four main Audit investigations in the 2021-22 financial year as well as significant involvement in a fact-finding review.

#### Investigations 1 and 2

Two investigations were ongoing during the year, both of which related to suspected COVID-19 grant payment frauds.

These were both referred to the National Investigation Service (NATIS)/ National Anti-Fraud Network (NAFN). Whilst the larger of these two frauds remains as an open investigation with NATIS and the lower value is still under their consideration

for investigation, we received confirmation in year that we could also pursue both of these payments locally. Audit West worked with Liberata to attempt recovery of these funds but, as anticipated, have so far been without success.

We have approached NATIS for an update on their own investigation(s) and will inform the Committee when there is further information to report.

### Investigation 3

This related to an allegation that an officer of one of the Council's partner organisations had been overseen looking at inappropriate material and had also sent these images from a North Somerset Council email account to their own personal email account. Internal Audit were asked to investigate this allegation as a matter of urgency, and, upon review, it was confirmed that these allegations were true. The employee concerned subsequently had their employment terminated with the partner organisation.

### Investigation 4

An email was received via the Fraud mailbox where an external source made an allegation that a Council employee had not declared their criminal record. A link to a newspaper article supporting this allegation was provided by the whistleblower.

Internal Audit undertook some background research and ascertained that the person was actually an employee of North Somerset Environment Company (NSEC). The matter was then discussed between Audit and NSC HR as, despite it being an NSEC employee, it was important to understand some base information around the allegation and recruitment process followed. HR then discussed the issue with the Director of NSEC, who in turn had engaged outside legal advice surrounding the situation. Following this, the employee's contract of employment was terminated.

### Additional Work

As well as the investigations described above, the Internal Audit service have assisted in an independent review of the issues surrounding the roofing works commissioned at a North Somerset School during the summer of 2021.

The review was commissioned by the Council's Chief Executive following extensive flooding at the school and was led by an independent investigating officer from One West (BANES), with independent consultancy support from the Chairman of the Strategic Schools Forum. The Head of Audit and Assurance also provided technical input and participation at key meetings.

It was found that overall there was a lack of clear ownership and joined up thinking towards the works at the school. Four key themes of causation were identified during the review as follows:

- Resources and Investment
- Timing and Resource Planning
- Relationships and Communications
- Contractor Failings and Contract Management

At the conclusion of the work, a number of presentation/ feedback sessions were held with the Chief Executive/ One West, followed by similar sessions with Council Directors and Members, and a session with the School.

## 6.5 Fraud Reporting

In the financial year 2021/22, a total of 34 potential fraud referrals were received, mainly through our dedicated fraud email address and referral form, which is an increase of 54% upon the previous year. This coincided with our redesign of the fraud reporting form, which has simplified the process and widened the scope to a larger range of fraud types. Early results suggest the new reporting form is enabling and encouraging more members of the public to come forward and report fraud, and as such is strengthening the Council's fraud defences. The reporting form can be accessed at: <https://www.n-somerset.gov.uk/form/fraud-referral-report>

Formal investigations took place where appropriate as reported in section 6.4, otherwise the majority related to areas such as Housing Benefit, Single Person Discount, etc and were referred to the relevant service area for action.

## 6.6 Staff Awareness

A strong focus on providing fraud information and awareness to equip staff has continued this year, with increased articles in the staff newsletter 'The Knowledge', a special article to coincide with 'International Fraud Awareness Week' (November 14-20) and a refreshed and updated online Fraud Awareness training course, which is a mandatory requirement for staff to undertake.

We received 32 fraud alerts throughout the year from the National Ant-Fraud Network which we then discussed/ shared directly with the relevant service areas, including Accounts Payable, Blue Badges, I.T., Electoral Services and Schools (including items being posted on the virtual 'Schools Noticeboard' and also circulated with a range of local academies).

Some examples of information provided to staff this year has included (but is not limited to):

- Change of Supplier details fraud, with subsequent good work from the Council's Accounts Payable team which resulted in the identification and prevention of an attempted fraud.
- Working with ICT in communicating a National Fraud alert received by Internal Audit. ICT then immediately placed a pop-up warning on user's computer, warning them about a phishing attack which affected a couple of other authorities
- items of topical relevance, such as an article reminding staff to declare any gifts or hospitality they are offered, as well as any personal or pecuniary interests they have. This was very much in line with news around MP's second jobs and related interests.

## 7. Strategy and Policy Updates

- 7.1 The Fighting Fraud and Corruption Locally 2020 is the updated counter fraud and corruption strategy for local government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities. The 2016-19 strategy promoted three key themes; 'Acknowledge, Prevent and Pursue', which was then adopted locally within the Council's 2019 Anti-Fraud & Corruption Strategy.

The 2020 Fighting Fraud and Corruption Locally strategy has built upon the pillars of 'acknowledge', 'prevent' and 'pursue' and added two more areas of activity, these

being 'Govern' and 'Protect'. Accordingly, the Council's Anti-Fraud and Corruption Strategy has been refreshed and updated to include these two new pillars in order to ensure the Council's approach to Fraud continues to be in line with best practice.

7.2 The Council's Anti-Fraud & Corruption Strategy is the "umbrella strategy" that brings together all fraud related policies. Its objective is to ensure that the Council is proactive in preventing and detecting fraudulent activities and corrupt practices, and takes the necessary action to punish those involved and recover losses.

7.3 Policies linked to the Strategy have also been reviewed and the following three key policy documents have been updated:

- i) Whistle Blowing Policy
- ii) Anti-Money Laundering Policy and Guidance
- iii) Anti-Bribery & Corruption Policy

## **8. 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

## **9. Financial Implications**

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

## **10. Legal Powers and Implications**

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

## **11. 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.

## **12. Risk Management**

It is recognised by Government that the current economic climate in the United Kingdom including the remaining effects of COVID-19 and the evolving cost of living crisis have the potential to increase the risk of fraud and irregularity as never seen before in the Public Sector. Furthermore, 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.

## **13. 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.

## **14. 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.

## **15. Options Considered**

None.

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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**

Internal Audit Update Reports to Audit Committee, 2021/22