

North Somerset Council

Report to the Audit Committee

Date of Meeting: 9th March 2023

Subject of Report: Counter Fraud Update Report

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.

1. Summary of Report

This is an update report to outline the main counter fraud activity that took place during the 2022-23 financial year.

2. National Picture and Emerging Fraud Risks

- 2.1 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 CIPFA Tracker Report was last 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 was last estimated to be £40.3bn annually, with £7.3bn of this total being lost in local government.

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

Accordingly, work is scheduled within the 2023/24 internal audit plan to review:

- NNDR (Business Rates) and Council Tax
- Housing (Lettings Service)

At the time of writing this report, the Internal Audit Service are also undertaking planned internal audit work withing Housing on the Homelessness Prevention Service and this includes a review of associated fraud risks.

An audit review of Blue Badges was last completed in 2020/21 and then followed up in 2021/22 to confirm that the recommendations made in the (2020/21) review had been implemented. It is anticipated that Blue Badges will next be reviewed as part of the 2024/25 audit plan, although it does form part of the NFI exercise (see section 3).

2.3 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 new fraud risk was recently raised by a member of the Audit Committee and this regarded QR (Quick Response) code fraud. An article was subsequently published in the staff newsletter 'The Knowledge' and included details on QR 'code jacking' and 'quishing', details on how to report a QR code scam, and also awareness tips for QR code safety. The Audit service are grateful to the Committee for bringing this matter to their attention.

3. National Fraud Initiative (NFI)

3.1 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.

3.2 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 (but are not limited to); Housing Benefit, Council Tax reductions, Payroll, Adult Social Care Personal Budgeting and Disabled Parking (Blue Badges).

3.3 Work on the current exercise (2022/23) is ongoing and the outcome of this work will be reported once complete. Members are advised that North Somerset Council has a total of 2,383 matches to be reviewed.

4. Internal Audit Targeted Work and Investigations

4.1 Internal Audit Planning and Reviews

The risk of Fraud is considered during all internal audit planning activity. This includes right 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 2.2, targeted work will be carried out in 2023/24 on known key fraud risk areas, including Council Tax, Business Rates and Housing.

4.2 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 3), 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 internal matches were completed primarily on data from the payroll and creditor system. The main checks that took place were as follows:

- Duplicate payments by invoice number, supplier I.D. and amount – *59 matches*
- Duplicate payments by invoice number and amount – *632 matches*
- Supplier gap detection – *8 matches*
- Duplicate suppliers by bank account – *334 matches*
- Payroll match by bank account – *38 matches*
- Duplicate National Insurance Number – *0 matches*
- Over retirement age – *419 matches*
- Creditors to payroll by bank details – *312 matches*

The matches highlighted above were reviewed and we are pleased to report that there were valid reasons for the matches and no instances of fraud or serious error were identified. However, we were concerned by the number of duplicate payments by invoice number, supplier I.D. and amount (59), and whilst it was found that the payments had already been identified by the Accounts Payable and had either been cancelled or reversed (and thus no outstanding duplicate payments remained) we have scheduled an internal audit in the 2023/24 plan so that we can work with the Accounts Payable team to understand the root cause of how the duplicate payments originally occurred.

4.3 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 was one main Audit investigation in the 2022/23 financial year which was previously reported in-year to the Audit Committee. The investigation concerned two allegations within the Place Directorate which related to reported non-compliance with procurement processes. The investigation was completed and concluded that neither of the two allegations were substantiated.

4.4 Fraud Reporting

In the financial year 2022/23, a total of 35 potential fraud referrals were received from the public through our dedicated fraud email address and referral form. This compares to 34 referrals received in 2021/22 and 22 received in 2020/21. The majority of the referrals related to areas such as Housing Benefit and Single Person Discount and were passed to the relevant area for action. We did however also receive details of a safeguarding concern within the referrals, which underlines the importance of the ability for the public to make a referral easily – either via the dedicated fraud email address or the simple referral form on the Council's website.

4.5 Staff Training and Awareness

4.5.1 A sustained focus on providing fraud information and awareness to staff has continued throughout the year, with regular articles in the staff newsletter 'The Knowledge'.

A special article to coincide with 'International Fraud Awareness Week' (13th – 19th November) was published and as well as outlining all the key fraud prevention information that is available to officers, additional audit time/ resource was also spent updating the intranet pages in order to further signpost staff to the guidance and training available to them.

4.5.2 Further, the audit service provided additional fraud prevention information to staff through some new bitesize training PowerPoint videos that they developed entitled "5 Minutes of Fraud". These videos can be accessed by staff at their convenience and give a broad overview of fraud risks to look out for, as well as what staff can do to prevent them. Videos produced within the year covered:

- An Introduction to Fraud
- Mandate Fraud
- Payroll and HR Fraud
- Procurement Fraud
- Social Care Fraud

The videos have proved to be popular and we plan to produce more videos in 2023/24 to cover further service areas and highlight new and emerging risks.

4.5.3 Through circulation of fraud alerts to staff and continued work with service areas that are particularly exposed to fraud, prevention and detection by officers has continued to strengthen and in turn reduced likely losses to the Council.

An example of this was when an attempted fraud of £58,560 was prevented by the Accounts Payable team. They had received email correspondence from someone purporting to be the 'Director' of a company asking the Council to replace an invoice already received (by the Council) with a revised copy which had different bank details, citing that the company's usual bank account had been blocked.

The Accounts Payable team followed the correct procedures and telephoned the company Director using previously verified contact details to confirm the legitimacy of the change of bank details email. The real Director confirmed that this was a scam and that his email address had seemingly been compromised.

The Accounts Payable team were congratulated on preventing this large fraud and for continuing to follow the robust controls previously agreed with internal audit.

4.5.4 In a second example, the Council's Community Learning Team contacted Internal Audit regarding an unexpected invoice payment request that they had received via email from a special school far outside of the North Somerset area. In order to view and pay the invoice they needed to open an attachment, and having seen previous guidance, instead decided to contact the Internal Audit service. The Audit service spoke with various finance officers within the Council to check that this wasn't a school that the Council used for say, out of county education. No record could be found of interaction between the Council/ school. Internal Audit then contacted the school directly to discuss the validity of the email and the school confidentially confirmed that their email system had very recently been compromised and that this was a scam payment request, albeit from a genuine email account of a member of staff. Had the Council officer originally opened the attachment, then its possible that the Council's email system may also have been at risk of compromise.

5. Strategy and Policy Updates

5.1 Nationally, the Fighting Fraud and Corruption Locally 2020 document is the most recent counter fraud and corruption strategy for local government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities.

5.2 The Council's own Anti-Fraud & Corruption Strategy adopts the national strategy at a local level and 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. The Council's Anti-Fraud and Corruption Strategy was refreshed, updated, and then approved in April 2022 by the Audit Committee.

5.3 Policies linked to the Strategy were also reviewed, updated, and approved in April 2022. These included the following:

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

The Council's Anti-Fraud and Corruption Strategy is next due to be reviewed in 2024.

6. Consultation

The Audit Committee is asked to note the Counter Fraud Update Report.

7. Financial Implications

There are no direct financial implications from this report which is focused on updates.

8. Legal Powers and Implications

There are no direct legal implications from this report which is focused on updates.

9. 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.

10. Risk Management

It is recognised by Government that the current economic climate in the United Kingdom including the 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.

11. 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.

12. 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.

13. Options Considered

None.

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Background papers

Internal Audit Update Reports to Audit Committee, 2022/23