



Title of report: Anti-Fraud, Bribery & Corruption Annual Report

Meeting: Audit and Governance Committee

Meeting date: 30 January 2024

Report by: Counter Fraud Manager

Classification

Open

Decision Type

This is not an executive decision

Wards Affected

(All Wards);

Purpose

This report is to provide an overview on all counter fraud activity across the Council's services throughout the previous calendar year and represent an up-to-date account of the work undertaken, including progress and outcomes aligned with our strategy and core objectives.

Recommendation

That;

- a) **the annual fraud arrangements be reviewed and confirmed as satisfactory by the committee to provide members with an accurate account of the latest counter fraud activity across services.**

1. Alternative Options

- 1.1 There are no alternative recommendations. The report provides a factual annual report in accordance with the functions of the committee.

2. Key Considerations

- 2.1 All counter fraud work is conducted within the appropriate legislation and through the powers and responsibilities as set out within the financial regulations section of the Council's constitution. The Council's Counter Fraud Manager supports the Chief Finance Officer (Section 151) in fulfilling their statutory obligation under section 151 of the Local Government Act 1972 to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption. It supports the Council's commitment to a zero-tolerance approach to fraud, corruption, bribery, and other irregularity including any Money Laundering activity.

3. Transparency Code

- 3.1 The Local Government Transparency Code requires the Council to publish data regarding its fraud arrangements. These are published on the Herefordshire Council Website in the [open data principles](#) section.

4. Introduction

- 4.1 Fraud against the public sector is a crime that impacts us all and fraudsters are often committed, capable, opportunistic and evolving. As a result, it affects the quality and quantity of public services that are available to local residents, as every pound stolen by fraudsters, is one pound less that could have been available to spend on schools, highways, social care, and community services. Therefore the impact can have a devastating effect on the public purse.
- 4.2 During 2023, economic factors such as the Cost of Living Crises continued to drive the rise of fraud nationally, with new emerging threats being identified. This included organisations across the UK adopting new ways of working remotely and flexibly, which has subsequently increased risks associated with workers occupying multiple undeclared jobs. Furthermore, the rise of artificial intelligence has presented criminals with more sophisticated methods of committing organised fraud. This has contributed to a significant increase of referrals to the Counter Fraud Service (CFS).
- 4.3 Herefordshire Council continues to operate a very proactive counter fraud function. Since it was established in April 2020 the CFS has generated significant savings, was a finalist in two nationally recognised public sector awards for its achievements, and has helped a number of other Local Authorities improve by sharing best practice. The CFS has been involved in many high profile prosecutions during this period and it continues to collaborate effectively in partnership with agencies to tackle fraud.
- 4.4 The CFS has responsibility for investigating fraud, theft, irregularity and corruption across the authority. The Counter Fraud Manager (CFM) is responsible for introducing measures to help prevent the risk of fraud, irregularity, bribery and corruption. This includes training staff, maintaining risk assessments, integrating new prevention technology and producing the relevant policies relating to fraud, theft and irregularity. The service works closely with Internal Audit, Human Resources and other services across the Council, as well as external law enforcement agencies, to mitigate fraud risks to the Council. The CFS further provides support, advice and guidance to service areas on all fraud prevention matters.

5. Key Performance Summary for 2023

89%	of all new starters completed fraud awareness training
109%	increase in the number of fraud intelligence alerts circulated
142%	increase in new fraud referrals to the CFS
281%	increase in the number of fraud cases investigated by the CFS
69%	of corporate fraud cases were closed in 2023
£800,467	total value attributed to counter fraud activity
£444,811	under civil recovery
£355,656	fraud prevented
331	fraud cases detected using NFI
334	cases actioned for civil recovery using NFI
76	misused or fraudulent Blue Badges were seized
41	malicious software incidents were prevented
3	successful prosecutions

6. Strategic Approach

6.1 Herefordshire Council's Counter fraud and Corruption Strategy, sets out the four core pillars detailed below, as a blueprint to assist the Council and which are aligned to nationally recognised standards. These key principles underpin the Council's strategic approach to support the management of fraud risk and counter fraud activity.



LINK TO STRATEGY: GOVERN

7. Council Policies

- 7.1 The Council has effective arrangements to support governance, which includes the following policies, which are in place to support counter fraud measures:
- i. Anti-fraud, Bribery and Corruption policy
 - ii. Whistleblowing policy
 - iii. Anti-Money Laundering policy
 - iv. Debt Recovery policy
 - v. Information Security Policy
 - vi. Employee Interests, Gifts and Hospitality policy
 - vii. Employee Code of Conduct policy

8. Counter Fraud Support

- 8.1 The Counter Fraud Service (CFS) is a member of the grants working group panel. The presence of the CFS on this working group helps to ensure that fraud is being considered by services responsible for the delivery of grant funding across the Council. Throughout 2023 the CFS engaged with departments to consider grant fraud risks and where appropriate, implement robust due diligence controls at the earliest opportunities within the application stage of grant schemes. Some of the schemes supported included the following:
- i. UK Shared Prosperity Fund
 - ii. Homes for Ukraine Travel Grant Scheme

9. Counter Fraud Maturity

- 9.1 Effective governance and improvement within the organisation is measured through reviews of the Council's counter fraud maturity. The last review was undertaken by SWAP internal audit in 2022, during which the Council was reported to have strong arrangements in place.

10. Declarations of Interests

- 10.1 A declaration of interest (DOI) is a formal statement completed by workers, stating that the information provided about their personal circumstances, is both truthful and accurate. It is therefore important for effective governance that the Council has in place a robust process and policy on declarations, to ensure that the transparency of workers meets the highest standards of conduct and integrity.
- 10.2 The risk of polygamous working fraud (working for multiple undeclared employers) has been raised as a risk area by the CFS. This risk type has been identified as a common trend nationally by both private and public sector organisations across the UK during 2023. As a result, the CFS has worked closely with our Human Resources (HR) department and ICT Applications team to review how declarations of interests are managed.

LINK TO STRATEGY: **ACKNOWLEDGE**

11. Risk Management

- 11.1 Fraud risk management is a vital tool used to assist the authority in the prevention of fraud. In Q1 and Q2 of 2023 the CFS undertook and led an extensive fraud risk assessment, during which the Counter Fraud Manager met with directors, managers and operational workers across service areas within the Council. This risk assessment ensured that services proactively acknowledged and took ownership of their fraud risks.
- 11.2 The Corporate Performance team have since integrated all fraud risks into the Council's risk registers and the CFS has worked closely with SWAP internal audit to ensure that fraud risks are considered during the assessment of any relevant new audit.

12. Training

- 12.1 The Council's bi-annual mandatory fraud awareness training module was rolled out to all employees in 2022, therefore during 2023, completion of the module was only required by new starters as part of the council's Induction process. A combined 89% completed the training.
- i. **Completion figures for all new Council starters in 2023 – 82%**
 - ii. **Completion figures for all new Hoople starters in 2023 – 96%**
- 12.2 The CFS has made a number of significant updates to the fraud awareness training module, ready for its next distribution to all workers in 2024, which includes new sections specifically on declarations of interests.

LINK TO STRATEGY: **PREVENT**

13. Fraud Awareness

- 13.1 The Midlands Fraud Group (MFG) is a group comprising of 26 members across Local Authorities and other enforcement agencies. During 2023 the Counter Fraud Manager became the facilitator for this group and proactive intelligence sharing has helped members increase the number of alerts circulated.
- 13.2 Raising intelligence alerts are a vital method of increasing awareness and the chances of prevention. Throughout 2023 the CFS raised a total of 23 fraud intelligence alerts across the Council's services. This was 12 more alerts raised compared to the previous year.
- 13.3 International Fraud Awareness Week (IFAW) took place in November 2023. During this week the Counter Fraud Manager worked closely with the communications department and multiple social media posts, articles and digital media screens were used to raise awareness of fraud. Resources and videos were made available to workers and there was a key focus internally throughout the week on declarations, whilst external publicity focused on the importance of referrals.

14. Technological Advancement

- 14.1 Herefordshire Council and Hoople continue to remain active members of the CIFAS fraud intelligence database, which is used to assist in the prevention and detection of crime across the organisation. This is funded by internal audit. CIFAS stands for 'Credit Industry Fraud Avoidance System', which is a not-for-profit fraud prevention organisation. The database has been utilised by the procurement and delegated grants teams since 2022. However in 2023, the CFS also enrolled it into the insurance department, to check claims for fraud indicators.
- 14.2 A new case management system has been procured which will enable best practice governance of referrals and fraud cases. Furthermore, the system is being linked to Power BI which will help in better understanding patterns and trends between fraud referrals and associated risks.

15. Partnerships and Collaboration

- 15.1 A new joint working arrangement has been established between Herefordshire CFS and the Department for Work and Pensions (DWP). The new agreement will enable both organisations the ability to pursue multiple types of benefit offences under a singular investigation and prosecution process.
- 15.2 Further collaborative working remains a core focus of the service and joint working on relevant cases with NATIS (National Investigation Service), as well as other Local Authorities and West Mercia Police.

16. Publishing Success

[Herefordshire Council's Counter Fraud Service shortlisted for another award](#)

- i. In February 2023 a news article was released by the Council raising awareness of the Counter Fraud Service being nominated as a finalist in the 'Local Excellence' category of the Public Sector Fraud Awards.

[Council encourages greater awareness this fraud awareness week](#)

- ii. In November 2023 the Council issued a press release promoting awareness of fraud and encouraging public referrals during the International Fraud Awareness Week.

[Fraudsters prosecuted for laundering business grants](#)

- iii. An article was published in December 2023 for a successful prosecution of three fraudsters who had defrauded the Council of £110,000 in Covid Business Grants. The case was part of a three year long investigation that Herefordshire CFS supported, alongside other Local Authorities and the National Investigation Service. Funds are still undergoing recovery under the Proceeds of Crime Act.

LINK TO STRATEGY: PURSUE

17. CORPORATE FRAUD

There have been **121** corporate fraud cases dealt with by the counter fraud department in 2023 relating to fraud against services provided by the Council.

22 cases carried forward from 2022

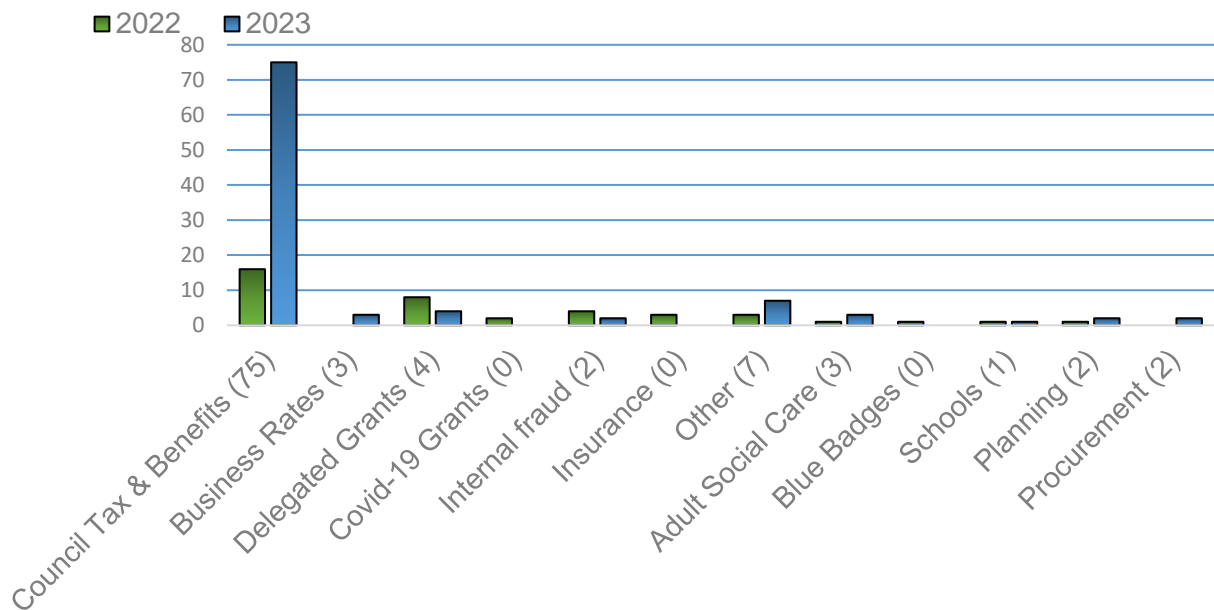
99 New referrals received in 2023

84 cases were closed in 2023

37 on-going investigations

142% increase in new referrals in 2023 compared to 2022

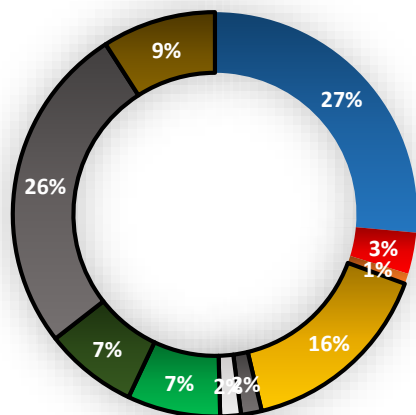
New referrals received in 2023



17.1 The highest area of new corporate fraud referrals during 2023 related to Council Tax and Benefits, with a significant **368% increase** in referrals within this individual service area. These statistics only relate to new referrals directly made to the counter fraud department and do not include the additional cases detected and managed through the National Fraud Initiative (NFI) exercise listed below.

17.2 The increase in corporate fraud referrals in Council Tax and Benefits can be attributed to the increased visibility and awareness of the CFS amongst local residents. The increase could also be a result of the inherent risk of fraud within this particular service and due to the Cost of Living Crises having an effect on the motivation of households to commit fraud in order to meet rising financial pressures.

18. Summary of Corporate Fraud case outcomes in 2023



- 32 Pending Investigations (open) - 27%
- 4 Criminal Investigations (open) - 3%
- 1 Prosecuted, Pursuing POCA (open) - 1%
- 19 Civil Recovery (closed) - 16%
- 2 Formal Warning (closed) - 2%
- 2 Prevented (closed) - 2%
- 9 Referred to Other Agency (closed) 7%
- 9 Included in NFI SPD Exercise (closed) 7%
- 32 No Fraud (closed) 26%
- 11 Insufficient Evidence (closed) - 9%

18.1 Ongoing Investigations

Currently there are a total of 37 ongoing corporate fraud cases that remain open. These cases are categorised as the following;

■ 32 Pending Investigations (open) – 27%

- 32 cases are pending further investigation, however the CFS is yet to determine the course of action and redress required at this stage. Of these, 2 relate to Social Care, 1 Business Rates, and 29 Council Tax and Benefits.

■ 4 Criminal Investigations (open) – 3%

- 1 case involves allegations of Council Tax and benefit fraud and is part of a joint working investigation with the DWP.
- 1 case relates to allegations of financial abuse of Direct Payments and is part of a joint working investigation with the Police.
- 2 internal fraud cases remain under joint working investigations. Due to the highly sensitive nature of these we are unable to provide any further details at this stage.

■ 1 Prosecuted, Pursuing POCA (open) – 1%

- 1 case has already been successfully prosecuted but is awaiting the outcome of recovery, under the Proceeds of Crime Act (POCA). Details of this case have been published and the relevant article referred to within section 16 of this report.

18.2 Closed Investigations

During 2023 the CFS investigated and closed 84 corporate fraud referrals. These cases are categorised as the following;

■ 19 Civil Recovery (closed) - 16%

- 15 cases involved fraudulent applications or undeclared circumstances to Council Tax Reduction reliefs and/ or discounts and benefits. The value under recovery is £31,296.
- 1 further case was an external fraud against a Direct Payment user's card. This card was subsequently de-activated and the £970 was reimbursed in full from the card supplier.
- 2 cases related to abuse of a grant scheme, whereby items obtained through the scheme were being sold for profit on social marketing sites. In both cases the items were all recovered.

- The final recovery involved an internal investigation which identified a case of polygamous working fraud. The employee resigned with immediate effect and the full value totalling £2,119 is under recovery by the CFS.

■ **2 Formal Warnings (closed) – 2%**

- 1 internal case was identified involving the misuse of a company device. This was low value and a formal warning was issued. The employee has since resigned.
- 1 external case was identified and referred to the CFS by the Planning department. A formal warning was issued after a number of false complaints had been received on a planning application.

■ **2 Prevented (closed) – 2%**

- 2 cases of mandate fraud was prevented and stopped before a combined total of £9,012 in payments were issued. Mandate fraud is a request to divert funds to a fraudulent account.

■ **9 Referred to Other Agency (closed) – 7%**

- A total of 9 cases were referred to other agencies as they were out of the CFS remit to investigate. Of these, 4 allegations were referred to the Valuation Office Agency (VOA) for assessment. A further 3 benefit fraud allegations were referred to the Department for work and Pensions (DWP). 1 case of a suspected money laundering scam was referred to Trading Standards, and 1 case of alleged tenancy fraud was referred to a Housing Association.

■ **9 Included in NFI SPD Exercise (closed) – 7%**

- 9 cases of alleged Single Persons Discount (SPD) fraud was included as part of the NFI SPD exercise. Further details of the outcomes from this review are listed below.

19. National Fraud Initiative (NFI)

- 19.1 The NFI is a national data matching exercise run by the Cabinet Office which Local Authorities are mandated to partake in. During 2023 the CFM continued to work collaboratively alongside the Revenues and Benefits departments to undertake a data matching exercise on individuals who were in receipt of Council Tax Single Persons discount, with the aim of identifying erroneous and fraudulent relief claims.

Council Tax Reliefs and Benefits Data Matching Exercise

331 matches categorised as fraud **334** cases actioned for civil recovery

£369,813 actioned for civil recovery **£346,644** value of prevention

- 19.2 The savings identified for civil recovery relate to the cases where accounts were incorrectly in receipt of ineligible Council Tax Reduction and/ or Single Persons Discount. The additional savings identified through prevention, is the estimated savings figure from preventing future incorrect payments, as calculated directly by the Cabinet Office.
- 19.3 The statistics provided above in this report only represent the work undertaken during the calendar year 2023. The NFI SPD review remains an active review going into 2024.

20. Covid Grant Recovery

- 20.1 As Herefordshire Council exited from the administration of the Covid business grants delivered through the pandemic, the work undertaken on grant recovery continued into 2023, with Local Authorities across the UK working closely with the Department for Business, Energy and Industrial Strategy (BEIS).

£40,211 civil recovery in 2023 from the outstanding clawbacks raised

£37,283 outstanding recovery on repayment plans

£110,000 being pursued under Proceeds of Crime (POCA)

21. Concessionary Travel Fraud

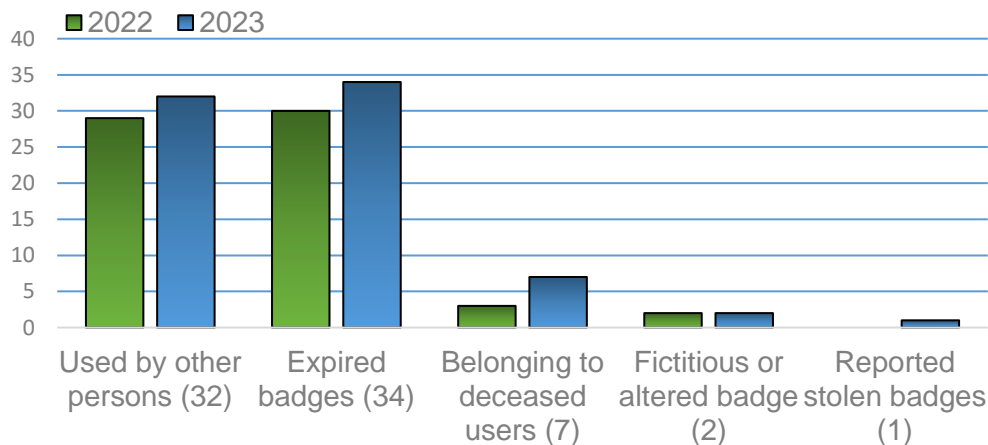
- 21.1 This section details the investigation by the parking enforcement team of Blue Badge misuse and Disability Permit fraud. Blue Badges can only be used by the named badge holder, or by a person who has dropped off, or is collecting the badge holder from the place where the vehicle is parked. It is a criminal offence for anyone else to use a Blue Badge in any other circumstances.

76 new cases in 2023

18.7% increase in new cases up from 2022

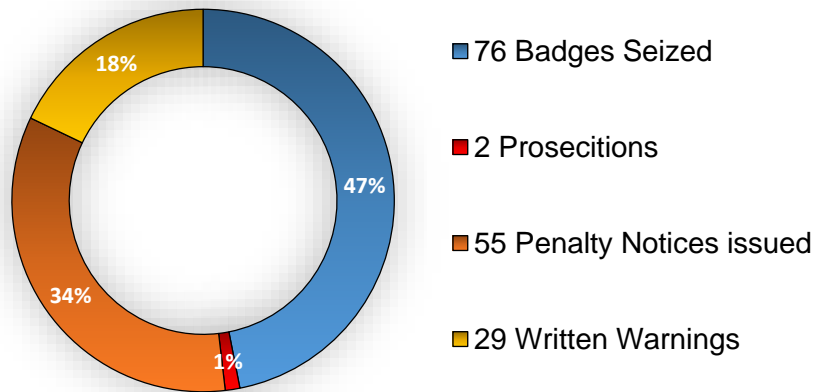
Blue Badge fraud and misuse case types 2022-2023

During 2023 the Parking Enforcement team experienced an **18.7% increase** in blue badge cases. Of the 76 new cases the department detected, most case types remained at similar levels compared to 2022 figures, however a slight rise has been noted in the number of blue badges being used belonging to deceased users.



22. Outcomes of Blue Badge cases in 2023

22.1 The number of badges seized, penalty fines, written warnings issued and successful prosecutions during the year, demonstrates the Council's continued resolve to tackle the issue.



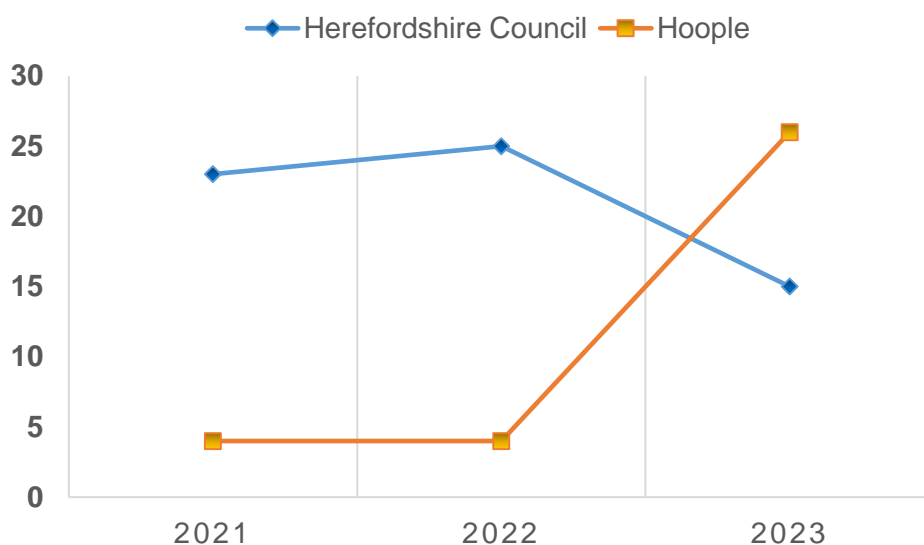
23. Cyber Fraud

23.1 This section relates to instances of cyber related fraud attempts against Herefordshire Council and Hoople services as recorded by the Information Governance department. An example of cyber fraud could be a ransomware attack or a phishing email.

15 recorded malicious software incidents for Herefordshire Council in 2023

26 recorded malicious software incidents for Hoople in 2023

Total number of recorded Malicious Software incidents



23.2 The graph above displays the total number of recorded malicious software incidents for both Herefordshire Council and Hoople over a period covering the last 3 years. It shows that the number of incidents targeting the Council have dropped over the last year, whilst the number of incidents targeting Hoople has greatly increased. It is important to note that **none of the incidents** targeting the Council or Hoople were successful during 2023, demonstrating the robust controls we have in place to prevent these cyber-attacks.

- 23.3 In 2023, local governments faced three primary cyber security issues: phishing attacks, ransomware attacks, and insider threats. These threats have been progressively advancing in complexity and potential harm.
- 23.4 The evolution of these threats underscores the importance of understanding why local governments are targeted. By comprehending the motivations behind these attacks, the Council can better prepare and protect themselves. Fostering a culture of security awareness is vital. This involves training staff to recognise and respond appropriately to cyber threats, promoting safe online behaviour, and creating a workplace where security is everyone's responsibility.

24. Community impact

- 24.1 Counter fraud activity supports the code of corporate governance principle which states that:
- a. Implementing good practices in transparency, reporting, and audit to deliver effective accountability. Herefordshire Council must ensure that those making decisions and delivering services are accountable for them. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner.

25. Environmental Impact

- 25.1 The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

Whilst this is a decision on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

26. Equality duty

- 26.1 Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.

26.2 Counter fraud activity undertaken across the Council's services can have a positive equality impact to members of the public. For example, enforcement of correct usage for disability parking permits (blue badges) has a positive impact on disabled people who are genuine holders, as it maximises their opportunity to use available car parking spaces. In addition, counter fraud activity can have a positive equality impact on many other services, such as Adults Social Care and Council Tax. By ensuring that individuals are not falsely claiming disability reliefs or benefits through these services, helps provide assurance that public funds are only provided in support of those with genuine needs.

27. Resource implications

27.1 Counter fraud activity supports the best use of Finance, ICT, Human Resources and Property resources. The recovery of funds also prevents the financial support of illegal activities. Resources allocated to counter fraud activity should be sufficient to meet the demands of increased fraudulent activity.

28. Legal implications

28.1 The Terms of Reference for the Committee includes monitoring the effectiveness and operation and the anti-fraud and corruption strategy (para. 3.5.12 of Constitution). There are no direct legal implications other than those already disclosed in this report.

29. Consultees

29.1 None

30. Appendices

30.1 Appendix 1 – Glossary of abbreviations and terms

31. Background papers

31.1 None identified

Report Reviewers Used for appraising this report:

Governance	John Coleman	Date 18/01/2024
Finance	Wendy Pickering	Date 18/01/2024
Legal	Sean O'Connor	Date 15/01/2024
Communications	Leanne Featherstone	Date 15/01/2024
Human Resources	Tracey Sampson	Date 15/01/2024
Equality Duty	Harriet Yellin	Date 16/01/2024
Procurement	Lee Robertson	Date 16/01/2024
Risk	Kevin Lloyd	Date 16/01/2024

Approved by	Andrew Lovegrove	Date 18/01/2024
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