

# Title of report: **Anti-fraud and corruption annual report**

**Meeting: Audit and governance committee**

**Meeting date: Tuesday 25 January 2022**

**Report by: Head of corporate finance**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards)

## **Purpose**

To provide an annual update to the committee on counter fraud activity.

## **Recommendation(s)**

**That:**

- a) **the annual report be reviewed and the committee determine any recommendations it wishes to make to ensure the anti-fraud work is maximised.**

## **Alternative options**

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

## **Key considerations**

2. The council's Counter Fraud Specialist (CFS) investigates allegations of fraud and irregularity and is committed to upholding the council's Anti-Fraud, Bribery and Corruption Policy. The CFS works across all directorates to identify fraud and to provide a dedicated, proactive and responsive investigation service.

3. The CFS also works on behalf of the Council to ensure that its counter-fraud arrangements are robust by raising awareness of fraud risk, reviewing and improving fraud risk management arrangements, using data to actively identify fraudulent activity and monitoring the extent to which the council is impacted by fraud. Where fraud is suspected or identified, the CFS provides a professional and criminally compliant investigation service and advises on control measures that will prevent recurrence.
4. Nationally there are indications that fraud continues to rise and criminals are finding new ways to obtain illegal proceeds through fraud, and Local Authorities are often prime targets of their criminal activity. Therefore it is important that the council continues to be vigilant at all times.
5. Within our Counter fraud and Corruption Strategy 2021-2024, the CFS set out the core pillars displayed below as a blueprint to assist our Local Authority, aligned to Chartered Institute of Public Finance and Accountancy's (CIPFA's) nationally recognised 'Fighting Fraud and Corruption Locally 2020' publication. It is these core principles that underpin the council's approach to support the management of fraud risk and corruption within the council.



## LINK TO STRATEGY: GOVERN

### Governance

6. Throughout 2021 the CFS has strived to follow the aforementioned pillars as a best practice tool for improving corporate Fraud Maturity across the organisation. As such, the council actively participated in International Fraud Awareness Week during November 2021, and this was fully endorsed across the organisation and from the council's CEO. This has helped broaden our efforts to embed an anti-fraud culture within the council.
7. A fraud prevention privacy notice (FPN) has been created to ensure data compliance is reaching best practice standards. The FPN has been circulated on relevant platforms and documents and we will continue to embed this into all relevant service document and policies.
8. The CFS has reviewed and made relevant amendments to the existing Counter Fraud, Bribery and Corruption 2019 Policy. This has been updated accordingly and is now aligned to the council's Counter Fraud and Corruption Strategy.
9. In May 2021 the CFS and SWAP Internal Audit produced the council's first joint quarterly Counter Fraud update to the committee. These reports will continue to provide the committee with an ongoing account of progress in-between each annual fraud report.

## LINK TO STRATEGY: ACKNOWLEDGE

## **Training**

10. Bespoke Fraud Awareness Training was delivered by the CFS in July and August 2021, to a total of 18 Councillors, who attended this training over two virtual sessions. The FAQ's and the PowerPoint slides were shared, and positive feedback was received.
11. In addition, a new and bespoke 'Fraud Awareness and Prevention 2021' e-learning module was created by the CFS and this went live in November 2021. It is a mandatory course which will assist in further educating employees across the organisation on how to understand, identify and report allegations of fraud. The increase in fraud awareness training will help to embed an anti-fraud culture within the council over the coming years.

## **Risk Assessment**

12. The CFS has been jointly working with SWAP Internal Audit during 2021, to undertake a comprehensive fraud risk assessment. This process has been a complex task requiring assessment in a large number of services across the council, and meetings have been taking place with Directors, Managers and Officers, to garner a broad perspective of the council's fraud risks and controls.
13. The first stage of the assessment was completed in March 2021. This looked at the council's Corporate Fraud Maturity by assessing areas such as, its compliance with Counter Fraud Policies; appetite for extensive risk management; ability to measure the effectiveness of its processes; identifying the available resources, and finally providing a view of the council's Counter Fraud culture. During a cross-partner comparison which included 11 Local Authorities over 7 separate Counties, the council's findings were within the top third in relation to counter fraud maturity.
14. The second phase of the risk assessment is a more in-depth 'service' level assessment which has been an ongoing process. The end result will be an assessment which we aim to incorporate into a new risk management system. This will assist in identifying trends and assessing risk on a 'live' basis, using intelligence to better lead in decision making. We anticipate that stage two of the risk assessment will be complete by the end of Q1 in 2022.

## **LINK TO STRATEGY: PREVENT**

### **Fraud Awareness and Controls**

15. A new fraud awareness intranet page was developed by the CFS and went live in July 2021. This development ensures that internal staff now have a dedicated platform on this important topic, which educates it's users on how to access counter fraud resources, read new articles and case studies, view the new strategy, watch awareness videos, and seek general advice.
16. In addition to the intranet page, a new fraud referral form sits on the platform. This provides council employees, Hoople staff and Councillors with a clear route into reporting any fraud concerns. The form also allows the user the opportunity to submit a report anonymously, which we envision may help individuals feel empowered to make referrals.
17. As the CFS continues to assist the Adult Social Care (ASC) Services, a 'Compromised Card Fraud Process' was implemented in July 2021, which was shared with the council's Direct Payments department. Furthermore, the CFS has worked with this directorate to create new processes and the implementation of 'Know Your Customer' (KYC) checks on payment card holders, has added an additional layer of assurance to ASC and Children's payment card holder services.
18. Quarterly meetings of the Midlands Fraud Group were attended by the CFS throughout 2021. During these meetings Local Authorities shared intelligence, and discussed upcoming fraud trends. The CFS is also a member of the National Anti-Fraud Network (NAFN) and intelligence alerts have been regularly distributed, across the council to help prevent and detect fraud.

## **Publishing Success**

19. In April 2021, a successful outcome was published in the media, following the prosecution of a former council carer, who admitted to three accounts of fraud by abuse of position, and one of theft. This demonstrates the importance of collaborative working with other law enforcement agencies such as West Mercia Police, to ensure positive outcomes.
20. The CFS worked with the Insolvency service to wind up two fraudulent companies. The successful outcome achieved coverage in over 10 national news articles, and was displayed on a large variety of social media platforms in August 2021.
21. In the third quarter of 2021 the council published successful outcomes of 6 prosecutions against blue badge fraud and misuse, helping the cause of deterring further offenders, and continuing to demonstrate the council's zero tolerance stance on fraud.
22. The council's CFS was a 'Finalist' for the: "Outstanding Young Professional of 2021" at the 'Tackling Economic Crime Awards'. This award was judged by an independent panel – appointed by the leading associations and anti-fraud groups – to the young specialist who has best demonstrated commitment and outstanding performance in tackling all areas of economic crime. It is a great achievement for the CFS to have been the only fraud professional in the UK representing a local authority, and to have succeeded as a finalist within these competitive National Award Ceremonies.

## **LINK TO STRATEGY: PURSUE**

### **Investigations**

23. The CFS has responsibility for investigating fraud irregularity and corruption across the authority, and is also responsible for putting additional measures in place to help prevent the risk of fraud, irregularity, bribery and corruption. Along with helping to ensure that additional safeguards are put in place in order to reduce the risk posed to the authority from organised crime. The CFS works closely with Internal Audit, Trading Standards and external law enforcement agencies to mitigate the risks to the council, as well as providing support, advice and assistance to service areas on fraud prevention matters.
24. It is pertinent to note that it is not always possible to accurately measure the consequential effects and indirect savings that occur due to counter fraud work. If potential fraudsters are simply aware that the authority have an investigation department that undertakes work into all aspects of fraud against the authority, then they will be less likely to attempt to commit acts of fraud, as this acts as a further deterrence against potential offenders. In addition, the preventative measures that the CFS works on, will further help stop fraud going forward.
25. Throughout both 2020 and 2021 the CFS has undertaken a considerable amount of assurance and verification work on the Covid-19 Grant Support Schemes. This has helped in the development of preventative procedures, risk assessments and post assurance checking, as well as undertaking investigations into potential cases of fraud within the grant system.
26. This local pattern of grant recovery is similar to the overall national picture presented by the Department for Business, Energy and Industrial Strategy (BEIS). The CFS is supporting the National Investigation Service (NATIS), the National Anti-Fraud Network (NAFN), the Insolvency Service and BEIS in bringing charges against the individuals involved in making fraudulent claims. Recovery work continues both at a national and local level. A summary of the position in relation to all Covid-19 business support grants paid by Herefordshire Council between April 2020 and December 2021 is provided in the table below:-

Covid 19 Business Grants - FEN {Fraud, Error, Non-compliance}	2020/2021
	Total value of grants paid to all businesses
Total number of cases investigated by the CFS	341 cases
Total value of clawbacks raised	£1,199,046
Total value claimed, but prevented before payment	£522,000
Total value paid, recovered	£699,722
Total value of grants paid, pending recovery	£499,324
Total value of pending recovery, on repayment plans	£149,102
<b>Total FEN Detected</b>	<b>£1,721,046 (1.7%)</b>

*Number of alleged fraud and misuse cases under investigation in 2021*



27. A total of 7 confirmed fraudulent grant attempts have been identified totalling £185,000. Of these, two attempts were prevented totalling £20,000, a further £13,000 has since been recovered from grants paid, and £45,000 is pending realistic recovery, following further investigation. This relates to a further expected saving of £78,000 in investigatory work by the CFS. As aforementioned in the 'publishing success' section of this report, the CFS has worked with the Insolvency service and so far, has wound up two fraudulent grant companies.
28. It is important to note that all cases were suspected OCG's (Organised Crime Groups), which were systematic, complex and sophisticated by nature. Each fraud has been identified as cross-boundary, targeting large numbers of Local Authorities during the Pandemic. The CFS has been working tirelessly in collaboration with the National Investigation Service (NATIS), the Crown Prosecution Service (CPS) and the Insolvency Service to pursue these cases. Business grant assurance work is anticipated to remain ongoing into 2022, with debt recovery expected to continue up to 2025 for some repayment plans.
29. In addition to the grant verification work, the Revenues and Benefits department has worked closely alongside the Counter Fraud department to undertake data matching exercises on businesses in receipt of Small Business Rates Relief. The aim of the exercise was to identify instances of businesses falsely claiming rates relief across multiple Local Authorities, therefore obtaining discounts and grants that they were not entitled to. As a result of this exercise, we detected 16 cases totalling £180,624. In these instances the reliefs have now been cancelled and recovery action is being undertaken. The council will continue to use this exercise going forward to identify any further instances of rates relief misuse.
30. Within the last annual fraud report in January 2021, we reported that the CFS was working with another Local Authority whilst investigating a Business Rates Fraud. Due to the sensitive nature of the proceeding no detail can be made public at this point in time, however we can confirm that we now have reasonable grounds to suspect this was an organised crime group and the fraud department is now in collaboration with NATIS and multiple Local Authorities undertaking a joint investigation.
31. The CFS has also been supporting Adults Directorate, which has helped to detect further instances of fraud in these areas. A total of 5 new cases were referred to the Counter Fraud

department in 2021. One of these concluded that no offence had been committed, while the other 4 cases remain ongoing. A further 2 historic cases (older than 2 years) also are ongoing investigation. In these cases, cross-agency working with the Quality Care Commission (CQC), and West Mercia Police (WMP) is assisting the CFS. Further information on these cases will be provided upon conclusion and therefore cannot be disclosed at this time.

32. The amount of cyber / malicious software attacks across the council has remained at a similar level throughout the Pandemic and the Cyber Security team have reported a total of 27 instances of malicious software attempts against the council during the course of 2021, which is up slightly from the 24 attempts reported in the previous year. The Cyber Security team reports that the council has robust controls in place to both prevent and detect such instances.
33. With the ongoing threat of phishing emails from fraudsters, the department has had two referrals of such attempts against the council. In both cases, the fraudster(s) attempted bank mandate fraud (which is the diversion of funds through re-directing to a fraudulent account). A further fraud attempt was reported against one of the council's card providers. We can report that in all three of these instances, the fraud attempts were prevented, and processes were reviewed.
34. In 2021, Blue Badge fraud and misuse increased back to pre-pandemic figures, after more cars returned back onto the roads and more people returned back to work. During the course of the year the parking enforcement team reported a total of 54 individual instances of Blue Badge misuse. This included people using badges belonging to another, or a deceased badge holder, and using expired badges, with one instance reported of a stolen badge. In response, the council has followed a robust response to fraud and misuse of Blue Badges, which included penalty fines being issued and 12 cases being prosecuted.
35. Further work has been undertaken on National Fraud Initiative (NFI) during the year. The NFI is a national data matching exercise run by the Cabinet Office which Local Authorities are mandated to partake in. Data sets are provided to the Cabinet Office annually, for Single Persons Discount review and biannually for the main review which includes other data sets (Blue Badge, Council Tax Reduction, Creditors etc).
36. Using NFI data matching, the council has started undertaking a review of the Council Tax Single Persons Discount (SPD) scheme, which will be ongoing into 2022. NFI data matching has also been used to provide assurance with creditor and supplier accounts, as well as matching Blue Badge data to deceased records. During this exercise, 200 individual Blue Badge accounts have subsequently been updated and 40 Blue Badges have been recovered. This work demonstrates the positive advantages that data matching can have on certain service areas.
37. As the department moves forward into 2022, further work will be prioritised on the management and analysis of data. This will include the completion and ongoing monitoring of the fraud risk assessment, and further work to be undertaken on creating a counter fraud data dashboard. It is important that we not only recognise the importance of Counter Fraud work, but that the committee understands the value of the work that has and is being completed, and actively demonstrates its support in tackling fraud.

## **Community impact**

38. 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.

## **Environmental impact**

39. 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.
40. 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.

## **Equality duty**

41. 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.
42. 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. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

## **Resource implications**

43. 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.

## **Legal implications**

44. The council must ensure that authorisations obtained under the Regulation of Investigatory Powers Act 2000 or the Investigatory Powers Act 2016 are appropriately logged, maintained and updated on its central register.
45. The Monitoring Officer has a statutory responsibility to advise the council on the legality of its decisions and to ensure that the council's actions do not give rise to illegality or maladministration. It is therefore essential for all councillors and all employees to follow the council's policies and procedures to demonstrate that the council is acting in an open and transparent manner.

## Risk management

46. In order for the council to understand the overall fraud risks, the CFS is working closely with the South West Audit Partnership (SWAP) to assess these risks both internally, and externally across local authority boundaries. This assessment is ongoing, with the aim of subsequently prioritising further assurance to service areas across the organisation, where it is most required.
47. The CFS has already completed accredited CIPFA fraud training, introduced mandatory training and a new referral process. This significantly raises awareness of the current risks we face and the appropriate mitigation action to put in place.
48. The council undertakes a fraud risk assessment against risks and looks ahead for future potential fraud and corruption risks. All allegations of fraud and corruption will be risk assessed in determining the correct response. The council maintains an independent and up-to-date whistleblowing policy, which is monitored, and can show that suspicions have been acted upon without internal pressure. Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business through the mandatory training provided. All relevant policies within the organisation are reviewed to ensure that fraud procedures are embedded.

## Consultees

49. None.

## Appendices

None

## Background papers

None identified

## Report reviewers used for appraising this report:

Governance	Ben Baugh	Date 17/01/2022
Finance	Audrey Clements	Date 10/01/2022
Legal	Alice McAlpine	Date 07/01/2022
Communications	Luenne Featherstone	Date 06/01/2022
Equality Duty	Carol Trachonitis	Date 10/01/2022
Procurement	Lee Robertson	Date 07/01/2022
Risk	Kevin Lloyd	Date 10/01/2022
Approved by	Andrew Lovegrove	Date 07/01/2022