

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

**Meeting: Audit and Governance Committee**

**Meeting date: Monday 30 January 2023**

**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 a summary overview on all counter fraud activity across the Council's services throughout the previous calendar year and to outline any progress and outcomes aligned with our anti-fraud strategy.

## **Recommendation(s)**

That;

**a) the annual fraud report be reviewed by the committee to provide members with an accurate account of the latest counter fraud activity across services.**

### **1.1 Alternative Options**

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

### **2.1 Key Considerations**

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 (CFM) 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.

### 3.1 National Picture

Fraud currently accounts for approximately **40% of all crime in the UK** and is by far the fastest growing offence costing local authorities in the UK as much as **£7.8 billion annually**, yet currently it is estimated that only 1% of law enforcement resources nationally are allocated to tackle this issue.

3.2 Public sector authorities entered into 2022 collectively dealing with the aftermath of the Pandemic, with central government working alongside local government to continue reconciliation and recovery of public funds that had been fraudulently obtained through the many grant and loan schemes that were administered.

3.3 The threat of fraud has nationally continued to rise in light of the economic strain caused through the Cost of Living Crisis. As the landscape of fraud changes, the financial pressures placed on family households provides an increased risk of insider fraud within organisations, as well as opportunists seeking to balance their finances during the current period of high inflation.

3.4 Local Authorities have therefore had the challenging task of navigating through multiple Covid grant audits and ongoing Covid related investigations, whilst continuing to assist local services affected by other types of corporate fraud and navigating the increased risk associated with the Cost of Living Crisis. This has required a balanced approach between proactive and reactive counter fraud activity, with a key focus being put on partnership and collaborative working.

### 4.1 Key Performance Summary

- New external counter fraud webpage and fraud hotline
- Joined CIFAS 'Credit Industry Fraud Avoidance System' fraud prevention membership

**£243,177** identified on the NFI 'National Fraud Initiative' for civil recovery

**£162,565** attributed in NFI prevention savings

**£244,628** recovered from the outstanding Covid grant clawbacks raised in 2022

**91%** of employees across the Council and Hoople completed anti-fraud training in 2022

**56%** of corporate fraud cases were closed in 2022

**344%** increase in new corporate fraud referrals during 2022



## 5.1 Strategic Approach

Herefordshire Council's Counter fraud and Corruption Strategy 2021-2024, sets out the four core pillars as a blueprint to assist our Local Authority, aligned to Chartered Institute of Public Finance and Accountancy's (CIPFA's) nationally recognised standards. These key principles underpin the council's approach to support the management of fraud risk and counter fraud activity.

**LINK TO STRATEGY: GOVERN**

## 6.1 Policy Reviews

Having robust arrangements to support counter fraud measures is an important part of our strategic approach to effective governance. As such, the Counter Fraud Manager (CFM) reviewed and updated the following policies below. These were circulated internally across the organisation and externally to suppliers;

- Anti-fraud, Bribery and Corruption policy, incorporating new legislation such as Tax Evasion.
- Updated the Anti-Money Laundering policy.
- Joint-working group review of the updated Debt Recovery policy.
- Review of the Employee Interests, Gifts and Hospitality Policy and declarations register.

## 7.1 Counter Fraud Support

It was important to consider lessons learnt from the Covid grants and how these can be used to help mitigate other public administered funds. The CFM therefore joined the working group within the Delegated Grants Service to support positive reform and has also supported high risk re-active schemes through the implementation stages, engaging with departments to consider fraud risk at the earliest opportunities. Some of the schemes supported included;

- Energy Rebate Scheme.
- Homes for Ukraine Scheme.
- Household Support Fund.

## 8.1 Counter Fraud Maturity Review

Effective governance and improvement within the organisation can be measured through continued review of the Council's counter fraud maturity. We therefore commissioned SWAP Internal Audit to undertake another review of the Council's maturity, assessing resources, communication, risk management, policies, culture, reporting and investigating capabilities. This review was undertaken to revisit the previous assessment undertaken in 2021, to compare the Council's progress.

- 8.2 An overview of the key findings from the 2022 counter fraud maturity review is attached at **Appendix A**.

**LINK TO STRATEGY: [ACKNOWLEDGE](#)**

**9.1 Risk Management**

The Council has a fully operational fraud risk assessment covering all services across the organisation. Following the counter fraud maturity review undertaken in Q4 of 2022, the CFM is taking proactive steps to meet with all services to review fraud risks and is working closely with the Corporate Performance department to integrate these into the risk register. We anticipate this task to be complete by the end of February 2023, with the aim of further aligning fraud risks to the internal audit plan and to the fraud action plan.

**10.1 Collaborative Working**

During 2022, partnership and collaborative working remained a key focus in our strategic approach to manage fraud. The effective working relationship between the Council's CFM and Internal Audit continues to ensure that risk mitigation for fraud is regularly considered. Internal Audit provided additional assistance in support of pro-active counter fraud reviews and data analytics.

**11.1 Training**

Throughout the year a new bi-annual mandatory fraud awareness training module was introduced to all employees and fraud training is now provided to all new starters as part of the Human Resources Induction process. Furthermore, bespoke fraud awareness training sessions were provided by the CFM in addition to the e-learning, to both the delegated grants and procurement services.

○ **Completion figures for 2022**

**Herefordshire Council Employees**



**Hoople Employees**



**11.2** A total **95%** of Herefordshire Council employees completed the new fraud awareness training course. The total completion rate for Hoople employees currently stands at **87%** and it is worthwhile noting that the course was enrolled to Hoople at a later period of the year in Q3 of 2022.

**11.3** Across both organisations the combined total completion rate for the fraud awareness training was **91%** as of December 2022. The Human Resources department will be following up any non-completion of the training with relevant service directors and line managers during 2023.

## LINK TO STRATEGY: **PREVENT**

### 12.1 Fraud Awareness

In addition to training staff directly across the organisation, fraud awareness has been raised both internally and externally through a number of different proactive methods. The CFM raised a total of **11 fraud intelligence alerts** across the Council's services during 2022.

12.2 A new [Counter Fraud Service external webpage](#), was launched to the public on the Council's website in November 2022. This webpage provides an external platform for fraud referrals including a new fraud hotline, containing relevant policies, awareness videos, news articles publishing our successes, and provides advice on scams and corporate fraud. It also provides another route to make referrals direct to the DWP, HMRC and Action Fraud for members of the public.

12.3 **International Fraud Awareness Week (IFAW)** was celebrated in November 2022, the same time the new counter fraud webpage was released. During this week the CFM worked closely with the communications department and multiple social media posts, articles and posters were circulated internally and externally. Resources and videos were made available to staff across the organisation through the Council's counter fraud Intranet page. The fraud department directly received a **75% increase in referrals during November 2022** as a result of the increased visibility and awareness.

12.4 **Herefordshire Council and Hoople joined CIFAS membership** 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. It operates as a fraud prevention service, and manages the largest database of fraudulent conduct instances in the UK. The use of fraud prevention systems are vital in providing the organisation with quality assurance and the ability to pro-actively reduce risk.

12.5 The CFM has taken lead on rolling out the new system and it has already been integrated into the Procurement and Delegated Grants departments, to undertake checks on high value tenders and high risk grants at the point of an application or tender. The system will continue to be distributed to other services by the CFM throughout 2023.

### 13.1 Publishing Success

In June 2022 a news article was released relating to two companies that had been wound up for Covid grant fraud. The companies had obtained a significant amount of fraudulent grant funding from multiple local authorities. Herefordshire Council's CFM assisted the Insolvency Service in this successful outcome.

13.2 In July 2022 a carer was jailed for fraud by abuse of position for stealing from a vulnerable care service user. Collaboration between the Council's safeguarding department and West Mercia Police ensured a successful result.

13.3 A further case was published in July 2022 for a successful prosecution by the Parking Enforcement team against an individual who had used a fraudulently altered disability parking badge.

LINK TO STRATEGY: PURSUE

## 14.1 CORPORATE FRAUD

There have been **50** corporate fraud cases dealt with by the counter fraud department in 2022 relating to fraud against services provided by the Council.

**10** cases carried forward from 2021

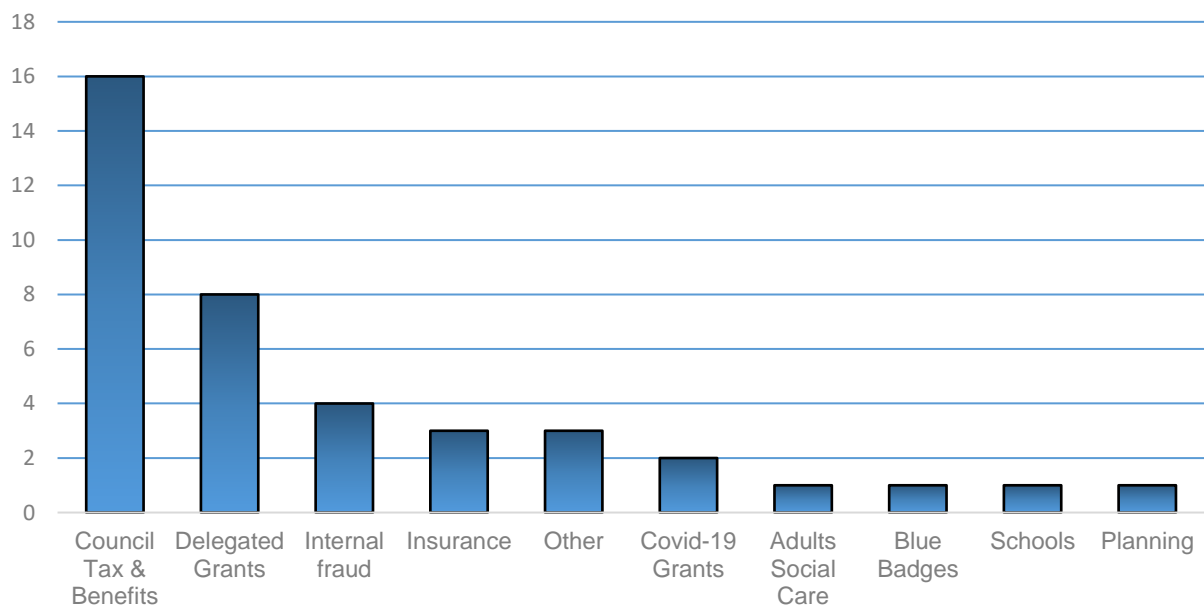
**40** new referrals received in 2022

**28** cases were closed in 2022

**22** on-going investigations

**344%** increase in new referrals in 2022 compared to 2021

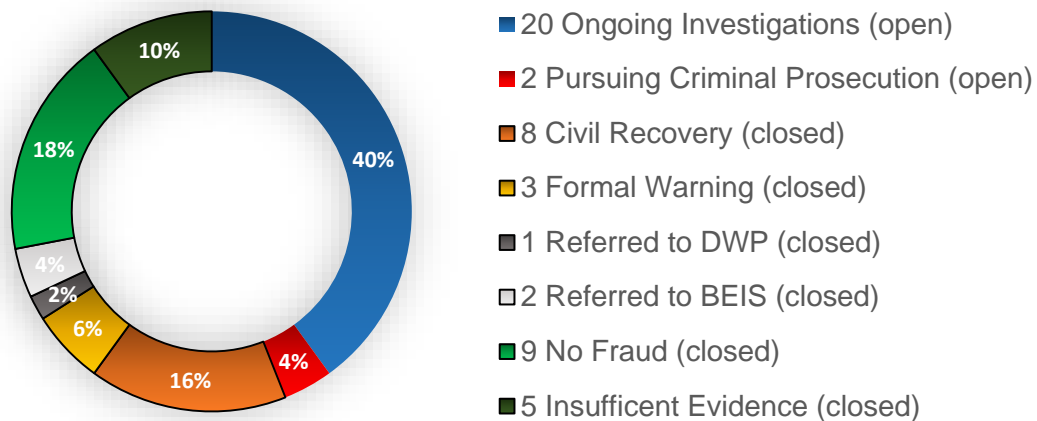
### 14.2 New referrals received in 2022



**14.3** The highest area of new corporate fraud referrals during 2022 related to Council Tax and Benefits, with a total of **40%** of new cases in this service area. These statistics only relate to new referrals directly made to the counter fraud department and do not include the cases detected through the National Fraud Initiative (NFI) exercise listed below.

**14.4** The increase in corporate fraud related referrals can be attributed to enhanced visibility and awareness of the function, and also due to the change in the economic climate which is believed to be increasing the national fraud risk. As a parallel to this increase, the number of Covid investigations has sharply dropped in 2022 as we conclude the reconciliation and recovery work.

## 15.1 Summary of Corporate Fraud case outcomes in 2022



## 15.2 Ongoing Investigations

As of December 2022 there were 20 ongoing corporate fraud cases pending further investigation. Of these, 1 case relates to suspected Business Rates impersonation fraud with a value of £11,600, and remains under a joint-investigation with multiple law enforcement agencies. Within Adult Social Care, 1 case of suspected direct payments fraud with a value of £8,051 was carried over into 2022 and is also under collaborative investigation with the police. In addition, 1 new social care referral was received and is under review.

Whilst the Parking Enforcement team deals with most blue badge misuse, 1 case of suspected blue badge fraud relating to an altered parking permit was referred to the CFM. Ongoing investigation and multi-agency work is required. A further case was opened into a suspected insurance fraud case during 2022 with concerns over an exaggerated claim to the value of £22,500.

A total of 3 internal fraud cases remain under investigation and both internal audit and West Mercia police continue to provide support to the Council's counter fraud function. Due to the highly sensitive nature of these we are unable to provide any further details at this stage. The remaining 12 open cases are all relating to suspected Council Tax and Benefit Fraud. We are currently not able to attribute a total value to these investigations.

## 15.3 Pursuing Criminal Prosecution

As we enter 2023, a total of 2 cases are being pursued for criminal prosecution. Of these, 1 case relates to deprivation of capital assets within Adult Social Care and two suspects each have been charged with one count of fraud by abuse of position. The case will be subsequently trialled at Crown Court in 2023. The other case relates to a national high profile covid 19 grant fraud case which is also due to be heard at Crown Court in 2023.

## 15.4 Civil Recovery & Formal Warnings

Civil recovery was pursued in 8 cases, whereby either an offence or breach of conditions was identified. 6 of these cases related to a delegated grants scheme, 1 case related to a local covid grant fraud case and 1 related to a Compromised pre-payment card. All of the funds associated were **recovered in full, totalling the value of £11,286** and formal warnings were issued in each case. In addition, 3 more formal warnings were issued in cases where there was no financial loss to the Council and it was not in the public interest to pursue additional sanctions.

## 16.1 National Fraud Initiative (NFI)

The NFI is a national data matching exercise run by the Cabinet Office which Local Authorities are mandated to partake in. The CFM worked alongside the Revenues department 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. In addition, the CFM undertook a data matching exercise to measure the effectiveness of the employee declarations register.

## 16.2 Council Tax Reliefs and Benefits Data Matching Exercise

**590** cases investigated **147** cases identified for civil recovery

**£243,177** identified for civil recovery **£162,565** additional savings in prevention

The savings identified for civil recovery relate to the 147 cases where accounts were incorrectly in receipt of ineligible Council Tax Reduction, Single Persons Discount and Housing Benefit. The additional savings identified through prevention, is the estimated savings figure from preventing future incorrect payments, as calculated by the Cabinet Office.

## 16.3 Declarations Register Data Matching Exercise

**276** matches reviewed **4** cases referred to Human Resources

Data matching was undertaken to identify undeclared interests on the employee declarations register. As a result, 4 matches were referred to Human Resources. No fraudulent activity or misconduct was identified, but the records were updated accordingly.

## 17.1 Covid Grant Reconciliation and Recovery

As Herefordshire Council exited from the administration of the Covid business grants delivered through the Pandemic, the work undertaken on grant assurance, audit and reconciliation continued into 2022, with Local Authorities across the UK working closely with the Department for Business, Energy and Industrial Strategy (BEIS). In addition, debt recovery work continued, as well as ongoing fraudulent investigations. A breakdown of the work the CFM undertook is provided as follows;

**58** audit requests completed across **12** grant schemes

**2** further fraudulent grant companies wound up in 2022

**£244,628** recovered in 2022 from the outstanding clawbacks raised

**£120,358** being recovered on repayment plans

**£107,000** of unrecoverable debt has been accepted as liable debt by BEIS



## 18.1 CONCESSIONARY TRAVEL FRAUD

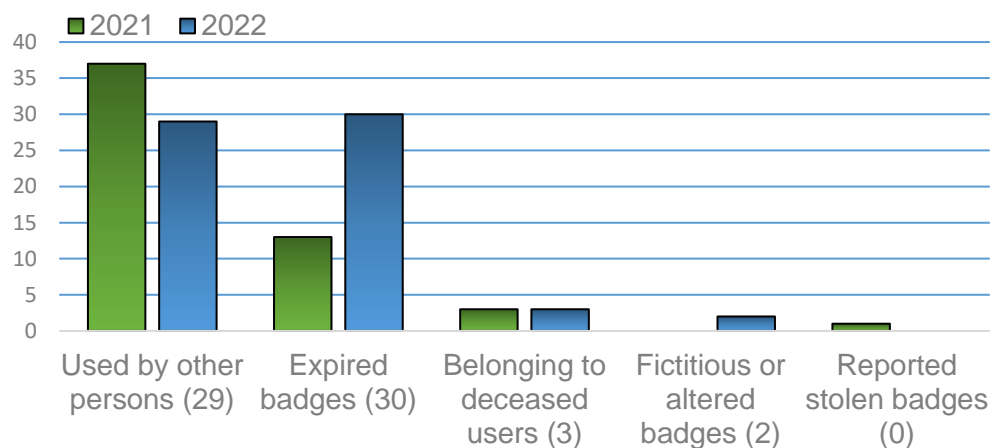
This section details the investigation of Blue Badge misuse and Disability Permit fraud by the Parking Enforcement team. Blue Badges can only be used by the named badge holder, or by a person who has dropped off, or is collecting the badge holder from the place where the vehicle is parked. It is a criminal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

**64** new cases in 2022

**18.5%** increase in new cases up from 2021

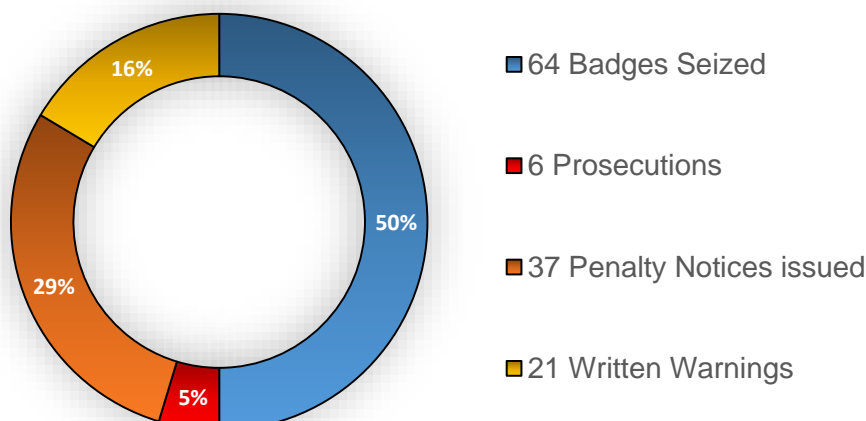
## 18.2 Blue Badge fraud and misuse case types 2021-2022

During 2022 the Parking Enforcement team experienced an **18.5% increase** in blue badge cases. Of the 64 new cases the department detected a **130% rise** in expired blue badges being used compared to 2021 figures.



## 18.3 Outcomes of Blue Badge cases in 2022

Despite the marginal increase in cases, 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.



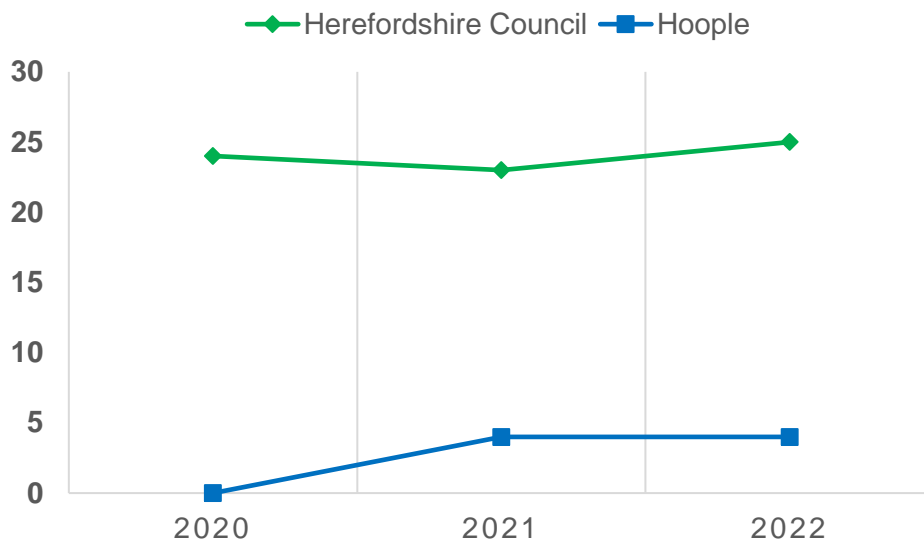
## 19.1 CYBER FRAUD

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.

**25** recorded malicious software incidents for Herefordshire Council in 2022

**4** recorded malicious software incidents for Hoople in 2022

### Total number of recorded Malicious Software incidents



## 19.2 Summary Analysis of Malicious Software incidents

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 are much higher than Hoople, but that both remain at a relatively consistent level over the aforementioned period.

We have seen a significant growth in ransomware campaigns over the last year. Ransomware is a type of malware and cybercrime that attempts to hold data for ransom. The latest ransomware statistics make it clear that phishing is the primary delivery method for ransomware.

All our devices suspected of having malicious software notified through event alerts, are wiped, rebuilt and monitored for unusual activity, helping to prevent successful cyber-attacks, which in turn prevents cyber fraud. Proactive monitoring, awareness and rapid response helps us mitigate financial loss from cyber-attacks. All the recorded incidents during 2022 were reported to have been unsuccessful, providing assurance of the organisations robust controls against cyber fraud.

## **Community impact**

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**

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.

## **Equality duty**

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.

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.

## **Resource implications**

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

There are no direct legal implications arising from this report.

## Risk management

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

None

## Appendices

Appendix A – Herefordshire Council and Internal Audit Counter Fraud Maturity Assessment 2022

## Background papers

None identified

## Report Reviewers Used for appraising this report:

Governance	John Coleman	Date 12/01/2023
Finance	Louise Devlin	Date 10/01/2023
Legal	Lorna Lucas	Date 11/01/2023
Communications	Luenne Featherstone	Date 12/01/2023
Equality Duty	Helen Yellin	Date 12/01/2023
Procurement	Lee Robertson	Date 12/01/2023
Risk	Kevin Lloyd	Date 11/01/2023

Approved by	Andrew Lovegrove	Date 12/01/202
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