

Anti Fraud and Corruption Review

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1. Summary/link to the County Plan

- 1.1. This report is the annual review of all the measures that the County Council has undertaken in the last year aimed at the prevention, detection and reporting of fraud and corruption. This is in accordance with our Financial Procedures and acknowledged best practice.
- 1.2. Anti-fraud and corruption work forms an important part of our corporate governance and internal control framework. With assistance from trained SWAP staff, we compare the County Council's systems and processes against typical fraud target areas for fraud, and against national trends and guidance.
- 1.3. The officers' conclusion of this review is that the County Council still has a sound framework in place, although still more could be done to raise awareness. However, we continue to see a small number of fraud allegations, some leading to more formal investigations from SWAP, (and potentially reporting to Action Fraud). This review and these incidents need to be strongly considered when the Audit Committee sets its Internal Audit Plan for 2019/2020 at its March meeting.
- 1.4. There has been a review of our Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Anti-Money Laundering Policy, and these are still deemed to be fit for purpose, subject to minor comments below.

2. Issues for consideration

- 2.1. The Committee is asked to regard the current national trends and to consider and comment on the specific anti-fraud and corruption measures undertaken and planned locally (paragraphs 3.4 to 3.7 below).
- 2.2. The Committee is asked to re-confirm the Anti-Fraud and Corruption Policy as set out in Appendix 1, and the subsidiary Anti-Bribery and Anti-Money Laundering policies.
- 2.3. The Committee is invited to comment on the local fraud cases in Appendix 2.

3. Background

3.1. National commentaries and support available

- 3.1.1. Many organisations now provide guidance / information about combatting public sector fraud, and a number of publications are included in the Background Papers section of this report (in a very approximate order of relevance and most recent).

- 3.1.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) has taken on a larger role to guide counter fraud work in the public sector, with a dedicated Counter Fraud Centre since 2014. It has published a” **Code of practice on managing the risk of fraud and corruption**”. This Code is designed to “support organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption.” It has also supported the latest Fighting Fraud and Corruption Locally (FFL) tri-annual strategy entitled “**The local government counter fraud and corruption strategy 2016-2019**”, and CIPFA has produced its own “**Fraud and Corruption Tracker 2018**” which summarises the national position on many types of fraud through surveying local authorities.
- 3.1.3. The Cabinet Office now has responsibility for the National Fraud Initiative (NFI) and has recently produced a detailed report on work undertaken under the NFI and potential losses and recovery achieved. Our local work under the most recent NFI data is set out below.
- 3.1.4. The European Institute for Combatting Corruption and Fraud (TEICCAF) “exists to protect the public purse and voluntary sector funds from corruption and fraud throughout Europe”. It produced a review entitled “**Protecting The English Public Purse 2016**”.
- 3.1.5. The Centre for Counter Fraud Studies based at the University of Portsmouth produced the “**Annual Fraud Indicator 2017**”, which attempts to re-quantify the likely loss through fraudulent activities by each category of fraud.
- 3.1.6. The majority of these publications are based on surveys and estimated costs of fraud by sector (private, public, individual, charity etc). Whilst the estimates are not always consistent, there is strong correlation as to the areas where fraud is perpetrated against, say, local authorities, and general consensus as to new and emerging risks (see below). For example, it is clear that many commentators consider that for the public sector in general the three greatest areas of perceived fraud risk are procurement, council tax single person discount (SPD) and adult social care.
- 3.1.7. There is also guidance from most publications as to how to combat fraud locally. The majority advise following a thought process similar to the CIPFA’s of **Acknowledge Responsibility – Identify Risks – Develop A Strategy – Provide Resources – Take Action**.

3.2. The critical need to acknowledge fraud risks and recent national cases

3.2.1. A common theme again running through the national commentaries remains, in that **organisations have difficulty in accepting that they are a fraud target** and that there is a risk of significant loss as a result. This is despite some high-profile convictions from fraud cases against local authorities in the past year, two of the most recent and illustrative which are set out below:-

3.2.2. In October 2018, it was reported that a £2m **Compulsory Purchase Order fraud** had occurred against the London Borough of Barnet. A lack of financial oversight by London Borough of Barnet over a regeneration joint venture allowed an employee to divert £2m of compulsory purchase order (CPO) payments to his own bank account. The man, an employee of the venture, was jailed for five years in July 2018 for diverting compulsory purchase order payments into his personal account between 2016 and 2017. The fraud was only picked up when the man's own bank made contact to query an unusual transaction. He was able to request 62 inappropriate payments to personal bank accounts.

3.2.3. Grant Thornton's investigative report found a number of problems of financial oversight, and commented that:-

- "Lack of control over delegated financial authority in the areas reviewed ... and overseen by the council gave the individual access to cost centres on the ledger for illegitimate purposes."
- "The overall financial control environment around the regeneration service within ... was not sufficiently robust to ensure that financial control weaknesses were actively identified and mitigated as part of business as usual."
- "In our view, in addition to inadequate controls put in place ... there was also insufficient oversight by the council to ensure that financial controls and budget management were sufficiently robust".

3.2.4. Also, in October 2018, a man was convicted of **defrauding the pension fund** of Westminster City Council and money-laundering in excess of £1,000,000. The individual concerned was working as the Chief Investment Officer and appears to have persuaded colleagues to sign off transactions as investments. However, he had diverted pension funds through Swiss bank accounts and then back into the UK, where he distributed the money to both his personal and own company bank accounts. This activity came to light when the auditors were made aware of discrepancies within the staff pension fund and found that the money had been unlawfully removed from the fund.

3.2.5. Work has been previously undertaken at Somerset County Council with key groups, such as reviewing anti-money laundering with our exchequer staff who receive payments on behalf of the County Council and presentations to senior managers, at the instance of the Chief Executive, as to the risks of "abuse of position" type frauds and the need for continued vigilance. This type of activity will need to be repeated. We have also just completed a budget management course through the LGA to a large number of senior officers, which should assist them in recognising rogue transactions. It is critical that SWAP's time continued to be allocated to key systems (financial or operational) where there is greater risk of fraud.

3.3. Estimating the cost of fraud

- 3.3.1. All of the national commentators agree that fraud against the public sector remains “big business” and that combatting it should remain a high priority for local authorities and public sector organisations.
- 3.3.2. It is obviously very difficult to quantify the total frauds perpetrated against local authorities, because not all frauds are detected, and even those that are detected and pursued may not be possible to calculate as an absolute value. The last comprehensive survey was undertaken by the (now defunct) National Fraud Authority in 2013/2014. It is estimated that public sector fraud still costs the taxpayer at least an estimated £20.3 billion a year, and local government £2.2 billion a year.
- 3.3.3. More recent commentaries have concluded that this figure is far too conservative an estimate and that the losses are significantly higher. The Cabinet Office’s work had concluded that this figure is probably a very conservative estimate and quotes the combined losses from central and local government to be between £20 billion and £49 billion per annum. The Annual Fraud Indicator 2017 headline figure estimates that public sector fraud losses are estimated to be £40.4 billion, of which £7.8 billion it attributes to local government, excluding benefits.
- 3.3.4. The above figures need to be compared with the amount of fraud that local authorities are actually detecting or preventing. CIPFA’s Tracker, the most recent survey, estimates that nearly 80,000 frauds were detected or prevented across local authorities in 2017/2018, with a total value of close to £302m, (an average value per fraud case of approximately £3,600). It also notes that the number of serious and organised crime cases has doubled since 2016/17. The implication, (even with estimated figures), is that only a very small percentage of frauds perpetrated against local authorities are actually detected or prevented.
- 3.3.5. Obviously, it should be noted that some organisations are markedly more susceptible to fraud risk than others depending on their functions, e.g. housing tenancy and housing benefit fraud will only impact on housing authorities. Further there is a marked difference in frauds detected across the regions, with detected incidents in London alone historically being up to 3 times the whole of the South West combined.

3.4. Fraud risks to Somerset County Council

- 3.4.1. The pie charts below show detected fraud by volume, and then detected fraud by value for all local authorities, showing the relative size and impact of certain categories of fraud. This is taken directly from CIPFA’s 2018 fraud survey of local authorities (being the most recent of all such surveys, and directly from local authority respondents).
- 3.4.2. Broadly, these figures are consistent with previous year’s surveys (Council Tax was 76% by volume in the 2017 survey, for example), and emerging trends and key points to note are discussed in more detail below. These results are from all local authorities (County, District, Unitary, Metropolitans, London), and so again not all fraud categories are direct fraud risks to the County Council.

Chart 1 : Detected fraud by volume

Detected fraud by estimated volume

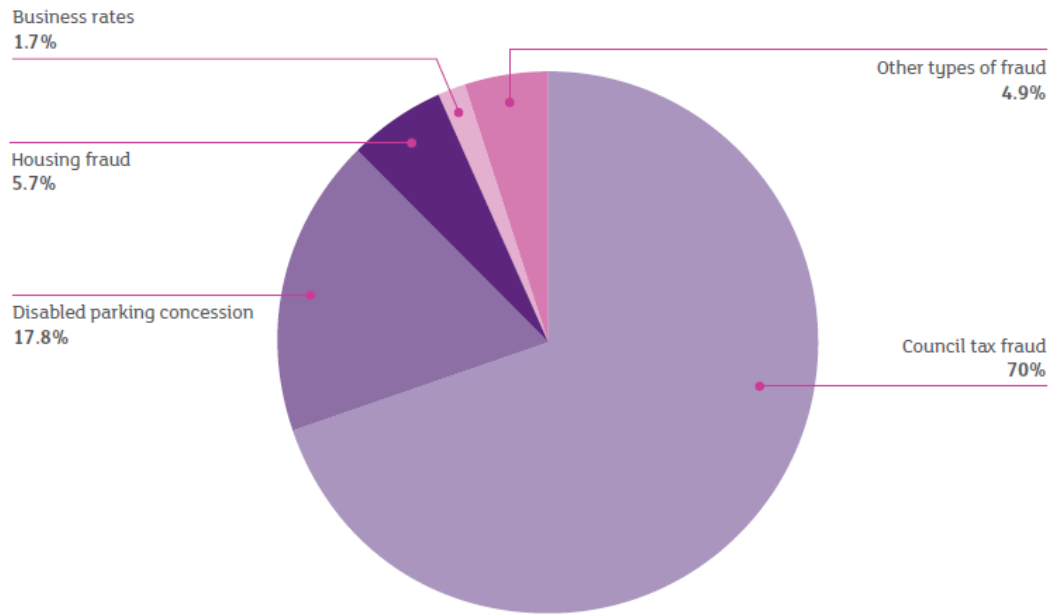
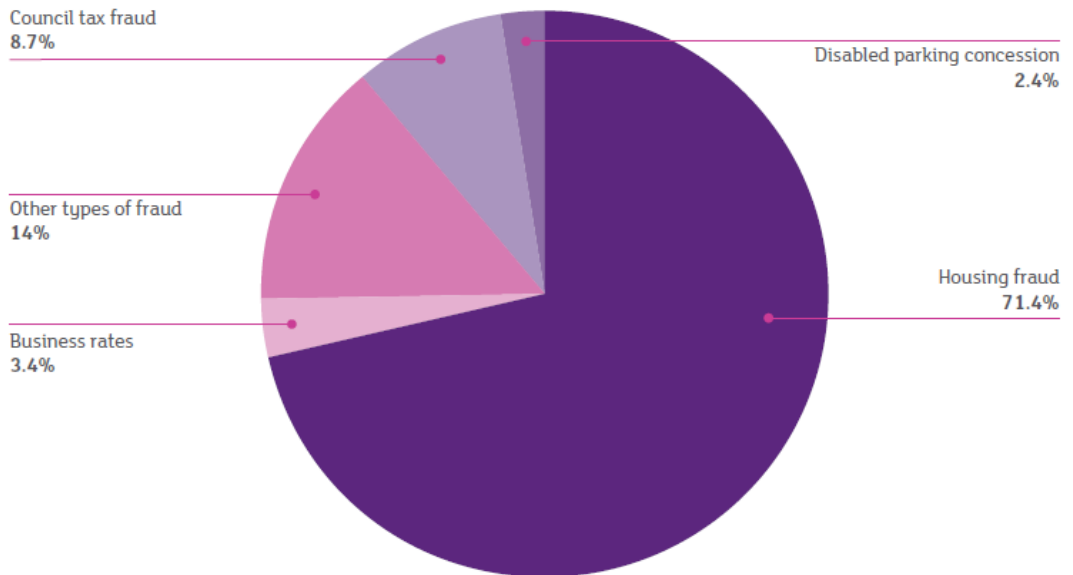


Chart 2 : Detected / prevented fraud by value

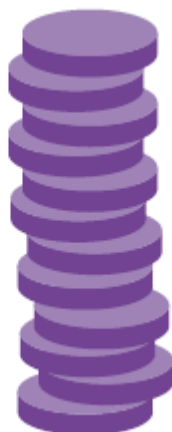
Estimated value of fraud detected/prevented



The largest growing area is business rate fraud

£4.3m

2016/17



£10.4m

2017/18

(However, it should be noted that Business Rate fraud remains just 3.4% of the estimated value fraud detected or prevented. Blue badge fraud has also increased – up £3m to £7.3m prevented or detected in 2017/2018).

3.4.3. The table below shows all the types of frauds reported in the survey and the estimated volume and value during 2017/18.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	-	-

- 3.4.4. Previously, the CIPFA survey has reported that there was an average of 4 prosecutions per survey respondent. It must be remembered, however, that the responders included District and Unitary authorities with Council Tax and housing responsibilities, and as the charts show, these are by far the largest proportion of detected cases.
- 3.4.5. Many of the “traditional” fraud risks are not directly applicable to Somerset County Council, such as housing tenancy and benefits, welfare and Right To Buy frauds. However, there are a number of key findings that come from the CIPFA survey, that do have direct implications for the County Council in terms of specific fraud risks.
- 3.4.6. **Council Tax fraud.** This remains the overwhelmingly largest area in terms of number of frauds reported. Traditionally, of the frauds detected, Single Person Discount fraud is by far the most common. Protecting the English Public Purse has previously estimated that nationally between 4-6% of all Single Person Discounts are either genuine errors or fraudulent claims. Over 30,000 Single Person Discounts are cancelled nationally as the result of every National Fraud Initiative exercise.
- 3.4.7. However 2017/2018 also saw an increase in council tax reduction (CTR) support fraud, whereby the council tax payer falsifies household income to qualify for support. CTR fraud now accounts for 15% of the total frauds detected. Whilst this fraud is not directly targetted at the County Council, it obviously bears the greatest financial loss
- 3.4.8. Previously, the County Council has provided £315,000 of funding to Districts within Somerset to assist with a review of the Council Tax base, particularly with respect to claimants of Single Person Discount. Projections at the time suggest that the benefit to the County Council could be as high as £1.8m from this exercise. Very recently, all Somerset authorities have recently been approached by Powys Council, who are offering a service to tackle Single Person Discount in particular and wider frauds as a potential second stage. At present, details of the proposal have to be treated as commercially confidential, but from discussions with Powys it does appear that they have access to information (such as credit bureaus) and could provide a service level above that which SWAP could offer. Section 151 officers in Somerset are currently considering this proposal.
- 3.4.9. **Business rates fraud.** Typically this is simply direct evasion of payments due, or even falsification of information to secure exemptions or relief. Again, whilst not directly perpetrated against the County Council it is impacted, and the impact will increase as Business Rate retention increases through Pilots and central government future funding plans. It is notable that the average Business rates fraud was £7,580 in 2017/2018, significantly higher than the Council Tax average of £455.
- 3.4.10. **Blue Badge fraud.** The value of fraud is very difficult to calculate, as it relates to lost parking revenues. Even in the event of a successful prosecution, there is no direct financial recovery that can be made, and any fine paid by the individual goes to the court, although some costs can be recovered. CIPFA estimates that Blue Badge fraud costs rural counties £449 per instance. This fraud relates to one individual’s use of a Blue Badge belonging to someone else (typically a family member). In most cases this occurs after the death of the individual who is entitled to a Blue Badge and notification of death and the withdrawal of the Blue Badge

has therefore not occurred. A total of 31,223 Blue Badges were cancelled nationally in 2016/2017 as a result of the National Fraud Initiative work (about 1.3% of the total in existence), although this does not mean that all were used fraudulently.

- 3.4.11. **Pension fraud.** Typically, in a similar way to Blue Badge fraud, this is often “Failing to disclose information” under the 2006 Fraud Act, where the Fund is deliberately not notified of the death of a pensioner and the funds continue to be paid into a bank account, and used by a family member. The National Fraud Initiative is a particularly good tool in recovering overpayments of pensions, mostly through genuine error, as we know what we have paid out and when, and we will be told the date of death by the DWP and General Registrar’s Officer, and can match the dates accordingly.
- 3.4.12. **Concessionary Travel fraud.** Again, the primary method of committing fraud on concessionary travel is to deliberately not notify us of the death of a pensioner and to continue to use, (and even re-apply in some cases!) for a pass. The National Fraud Initiative will allow us to update our records periodically. This is another area where information is critical – some 234,154 passes were stopped nationally in 2016/2017, a significant increase on previous years, but with 9.8 million passes in circulation it remains a risk. Somerset County Council has improved its work generally on concessionary fares in 2017 by the appointment of a dedicated concessionary fares officer, although the post is currently looking at the operators, where the cost risks are larger.
- 3.4.13. **Procurement fraud.** This category of fraud appears to be on the rise nationally, admittedly from a very low base. Even with a small number of cases, because of the nature of fraud, the potential costs in each case to authorities is substantial (£36,442 per case detected in 2017/2018) and procurement fraud is only below housing in terms of value per case. This can be at any stage of the procurement of goods and services to an authority, such as through tendering, or even during the contract monitoring stage after a contract is let.
- 3.4.14. Somerset County Council has a very well defined procurement process for awarding large contracts, using a dedicated procurement portal, and as such has a level of protection against procurement frauds that provides strong assurance. The amount of potential loss only serves to emphasise the need for compliance with our prescribed procurement processes.
- 3.4.15. **Adult social care fraud.** Adult social care fraud is clearly increasing can happen in a number of ways:-
- Residential homes continuing to invoice for residents who have died;
 - Residential homes or care workers claiming money for time that they had not worked with those needing care, or where they had failed to provide the full level of care that a local authority had requested;
 - Direct payments not being used to pay for the care of a vulnerable adult, or for expenditure that it should not be used for;
 - Direct payments being claimed in a way to evade tax liabilities, such as when care is provided by an individual;
 - Deliberate failure by individuals with a personal budget to declare a change in circumstances, either health or financial;
 - Defrauding the vulnerable adult of their direct payments they were legitimately entitled too, usually by a friend or relative.

The fraud risk on adult (and childrens) social care has increased through the use of direct payments to individuals to arrange their own social care needs. Only 2% of adult social care fraud cases have insider involvement by the local authority's staff.

3.4.16. As can be seen from the local investigations in Appendix 2, there have been a small number of allegations with regards to adult social care fraud in 2018 at Somerset County Council. Whilst none are proven and this may lead to no formal investigations with the police, it has highlighted this area as one that should be included on the Internal Audit Plan for 2019/2020. Officers will propose to include audits on both residential home care providers and on direct payments (adults and childrens).

3.4.17. **Other frauds** that could directly impact against SCC include:-

- **Insurance fraud** for false claims (SCC's Insurance Team has implemented the Claims and Underwriting Exchange (CUE). CUE is a central database of motor, home and personal injury/industrial illness incidents reported to insurance companies, which may or may not give rise to a claim). There have been no investigations at Somerset in recent years, and with CUE the risk is considered relatively low.
- **Payroll fraud** for unworked hours and expenses. CIPFA report that up to 40% of payroll cases involved insider fraud, but SCC can take a great deal of assurance from the repeatedly Substantial assurance from SWAP audits on our main payroll system and controls. Nationally, instances of payroll fraud are reducing.
- **Mandate fraud** claiming to be from suppliers and asking us to change their bank account details (SCC has controls in place to check any such requests, and this is a rather unsubtle and easily combatted fraud attempt). Cases of mandate fraud are notably on the decline in recent years.

3.5. **SWAP audit work on fraud**

3.5.1. The Internal Audit Plan makes provision for anti-fraud work in several ways:-

Firstly, the auditor will be looking for key controls and processes in every audit, and would flag up any concerns that arose in the course of their work – be it the possibility of loss through error, or the potential for fraudulent activity.

3.5.2. Secondly, we include a number of what are termed “key control audits” looking at our financial and related systems. In the 2018/2019 Internal Audit Plan, this includes audits on Accounts Payable (Creditors) and Debt Management. It will be proposed to include both Payroll and Treasury Management in 2019/2020.

3.5.3. Thirdly, each year, as part of the Internal Audit Plan, we include at least one fraud-themed audit, looking at how well protected the County Council is from certain specific fraud risks. This is informed from a number of sources – such as national emerging themes, audit recommendation or officer request.

3.5.4. In 2017/2018, SWAP carried out a wider piece of work looking at emerging national fraud issues, and how they were managed in Somerset, in order to give a level of risk assessment. They found higher levels of assurance in some

areas, such as Insurance, payroll and Early Years. Whilst assurance around Procurement and Accounts Payable (Creditors) was also generally thought good, the sheer volume and value of transactions going through these areas presented a risk. Concessionary Fares was already subject to a Follow Up audit, and the service made a presentation at the November 2018 Audit Committee to highlight recent improvements in their work. This left the Blue Badge scheme, and whilst there had been no evidence that fraud has been attempted, as this had not been audited for some years, it was included in the 2018/2019 Plan.

- 3.5.5. In addition, a Cash Handling audit was included in the 2018/2019 Plan, given that this represents an area with a high inherent risk of fraud and error.
- 3.5.6. Fourthly, there is also capacity within the Internal Audit Plan for trained auditors to investigate individual allegations as they arise. As ever, SWAP has been very flexible in freeing up resources and in providing an auditor to investigate individual cases. A summary of these can be found at Appendix 2 of this report.
- 3.5.7. In addition, in response to new legislation in the form of the Criminal Finances Act 2017, an advisory audit was included in the 2018/2019 Internal Audit Plan (details set out paragraph 3.6 below).
- 3.5.8. With the National Fraud Initiative work also about to recommence (paragraph 3.7 below), and the proposed audits for the 2018/2019 Plan officers believe that work has either happened recently, or will take place imminently to review all the main fraud risks facing Somerset County Council.

3.6. Tax evasion audit – initial findings

- 3.6.1. To remind members, new legislation has been enacted within the Criminal Finances Act 2017, which came into effect in September 2017. Only two things need to happen for a “relevant body” (which includes the County Council) to commit the Offence:

- A fraud is committed; and
- It is facilitated by someone associated with the relevant body

A relevant body’s employees are associated with it as well as contractors supplying services to the relevant body.

Critically, facilitation includes failure to prevent.

- 3.6.2. Three examples are quoted in the guidance:
 - An employee agrees to pay a contractor in cash for construction-related work at a local authority school on the understanding that VAT will not be accounted for the payment will be made outside of the Construction Industry Scheme.
 - An outsourced payroll contractor agrees with an individual to turn a blind eye to the IR35 rules.
 - An employee agrees to pay a third party for a casual labour task as the contracted provider, who should have been treated as an employee for PAYE and NIC purposes, has no business bank account.

In each of these examples, the local authority is liable. It is a strict liability offence, meaning that knowledge of the actions is not needed for there to be a liability. Unless, a relevant body has put in place reasonable preventative procedures there will be an investigation by HMRC with potential prosecution and an unlimited financial penalty.

3.6.3. This audit was added to the 2018/2019 Internal Audit Plan following the annual Anti-Fraud and Corruption report in January 2018. The purpose of the audit was to make an initial assessment of SCC's procedures to see if they pass the "reasonable" test. The audit fieldwork is largely complete, and a final report is expected shortly. It looks at 7 areas that national commentators and/or SCC officers believed to be particularly important for this offence (in approximate order of relevance):-

- Value Added Tax (VAT);
- Payroll, including Pay as You Earn (PAYE) & IR35;
- Construction Industry Scheme (CIS);
- School imprest funds;
- Schools unofficial funds;
- Direct payments;
- Grants.

3.6.4. Initial analysis is that VAT and payroll both would meet the reasonableness tests already. There are no "highest priority" findings to address elsewhere, but there is further work or additional sampling that could be usefully done in other areas. SWAP propose that this can be completed through a combination of policy work, training and communication, coupled with specific audits in the 2019/2020 Plan. SWAP recommend that the County Council produce a tax evasion strategy built on the findings of the audit, including a clear statement confirming the Council's position on tax evasion facilitation, and that it is publicised. The audit also recommends that training for specific groups of staff in terms of tax evasion as it affects their work. All of these points will be agreed by SCC officers and reviewed with SWAP in 2019/2020.

3.6.5. The tax evasion audit also proposes a number of future audits that will pick up these points (in addition to being valueable audits in their own right). SWAP propose including a school purchasing theme in next year's audit plan, during which they will review how schools control their CIS invoices, imprest funds and procurement cards, which will provide further evidence in all these areas. SWAP also propose an audit of Schools Unofficial Funds as this has not been undertaken since 2013/2014.

3.6.6. Completion of all these actions will provide the County Council with a stronger position to demonstrate reasonable preventative procedures should a tax evasion issue be raised with HMRC.

3.7. National Fraud Initiative (NFI)

3.7.1. Somerset County Council continues to participate in the Cabinet Office's National Fraud Initiative (NFI), along with 1,200 other organisations. This scheme is a cross-authority exchange of information between public bodies, with its own highly-secured website, which is run on a 2-year cycle. Participating authorities provide information from their primary systems to the NFI for analysis. This information includes, for example payroll, pensions, creditors, Blue Badge holders, insurance

claims, vendors and payments made, concessionary travel passes and personal budgets.

- 3.7.2. Members are reminded that whilst Somerset County Council must comply with all legislation and guidance on the use of data, (such as the General Data Protection Regulation (GDPR) which has been to Audit Committee previously), the Data Protection Act 2018 still allows “competent authorities” to use data for the detection of fraud. The NFI work does not require the consent of the individuals concerned.
- 3.7.3. The Cabinet Officer NFI teams compare our data both internally and with information supplied by other organisations and highlights potential errors or frauds. For example, it compares staff on our payroll and pensions, who also appear on other authorities’ payroll and pensions records for the same period, or people on our pensions or concessionary fares lists for whom the Department of Works and Pensions have a deceased date. It also looks at where we have made the same or similar payments to the same supplier over time, or where the VAT on payments is unusual. Once the NFI have done their comparative work, we receive “datasets” back onto our secure system. A dataset is effectively a list of all potential “matches” or concerns that the NFI’s work has thrown up in a certain area e.g. pensions, which were the largest increase in potential “matches” and monies recovered in the previous exercise.
- 3.7.4. Access to the NFI website is highly restricted, but a few staff within each service area in the County Council then investigate the potential matches for any suspicious activity in their own specialism. Where the potential match is with another authority, there is a secured electronic communication within the other authority to check details and investigate in a collaborative manner.
- 3.7.5. Our latest information was uploaded to the National Fraud Initiative database in late 2018. At the time of writing this report, we are awaiting the output from the NFI database to permit our analysis of the data “matches”. Somerset County Council has uploaded a significant number of records to the NFI database, although we do not expect the vast majority to be concerns:-

	Record Count
Blue Badge Parking Permit Uploads	28,645
Creditors History Uploads	470,823
Concessionary Travel Pass Uploads	109,424
Creditors Standing Uploads	10,772
Deferred Pensions Uploads	26,032
Personal Budgets Uploads	1,564
Pensions Uploads	57,446
Payroll Uploads	9,902
Private Residential Care Homes Uploads	2,108
Total	716,716

- 3.7.6. In the previous 2-year cycles, in addition to a small number of cases that warranted investigation, we also have found a number of genuine errors and these have typically resulted in approximately £30,000 per NFI exercise being recovered, which more than covers the staff time involved. For some areas, such as pensions, this recovery could be recurring over many years. Nearly 7,000 “matches” were reviewed by SCC staff in the previous cycle.

- 3.7.7. Active participation in the National Fraud Initiative is a key defence for local authorities in combatting fraud, albeit a retrospective exercise. Of the figures quoted in the CIPFA Tracker, the majority of those detected nationwide have come from this exercise. (Members are reminded that a previous NFI exercise was directly responsible for the only successful prosecution that Somerset County Council has had for fraud to date, which was a pension case).
- 3.7.8. In previous cycles, the National Fraud Initiative has only served to confirm the strength of Somerset County Council's systems – particularly around Accounts Payable and VAT. In these areas in particular, the NFI rarely if ever throws up a potential anomaly that was not already detected and reviewed by the respective teams.

3.8. Transparency requirements

- 3.8.1. The Local Government Transparency Code sets out the minimum data that local authorities should be publishing on fraud, the frequency it should be published and how it should be published. The table below sets out the Code's requirements. This will be updated on the relevant part of our website by the end of January 2019. We also include the January Anti-Fraud audit report and links to SWAP, contact details and to other relevant sites and information, exceeding the statutory requirement.

Minimum to be published	Recommended
<p>Annual publication Publish the following information:</p> <ul style="list-style-type: none"> • number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers • total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud • total number (absolute and full time equivalent) of professionally accredited counter fraud specialists • total amount spent by the authority on the investigation and prosecution of fraud • total number of fraud cases investigated 	<p>Local authorities should publish:</p> <ul style="list-style-type: none"> • total number of cases of irregularity investigated • total number of occasions on which <ul style="list-style-type: none"> a) fraud and b) irregularity was identified • total monetary value of <ul style="list-style-type: none"> a) the fraud and b) the irregularity that was detected, and • total monetary value of <ul style="list-style-type: none"> a) the fraud and b) the irregularity that was recovered

3.9. Anti-Fraud and Corruption Policy

- 3.9.1. As part of our annual review of the County Council's anti-fraud and corruption measures, a review has been carried out of our Anti-Fraud and Corruption Policy (Appendix 1). Officers do not see any need for a substantial review of this

document at present, individual investigations have been carried out by SWAP auditors and SCC staff during 2018, and it is clearly workable in practice.

Very minor updates (such as officer Job Titles and posts, given the departure of the Strategic Manager – Governance, ECI and Corporate Services) have been made.

Fraud remains a clearly stated example of gross misconduct within the relevant HR policies.

- 3.9.2. In summary, Somerset County Council remains committed to a **zero tolerance policy**, to investigating all credible allegations, to seeking to recover all losses, and to reporting cases to Action Fraud where there is any possibility of a criminal conviction.
- 3.9.3. Significant work was undertaken previously to present to senior managers the risk of fraud, following a number of internal “abuse of position” cases (previously reported to the Audit Committee). It will be necessary to remind officers, members and third parties of SCC’s policy with regard to fraud in 2019.
- 3.9.4. Members may recall that the recent procurement of new insurance policies has an improved cover against criminal activity, increasing the potential for any recovery.

3.10. Anti-Bribery Policy

- 3.10.1. This is an Annex to the Anti-Fraud and Corruption Policy. This policy was significantly updated ahead a couple of years, with help from SWAP.
- 3.10.2. The auditor’s overall view was that there was a **Low Risk** in terms of our controls in relation to these offences, and that any response would only need to be proportionate to that level of risk. Officers concur with this assessment. Although some of our controls are not “badged” as anti-bribery, there are many effective controls in preventing bribery, such as the examples in the table below.

Area of Potential Risk	Examples of Mitigating Controls
Award of contracts	Use of Pro Contract and Contract Standing Orders Controlled waiver process Decision paper required and consultation with key officers
Award of planning permission	Decisions made through public Regulation Committee. Members’ standards
Recruitment	HR guidelines and support Panel interviewing
Payment of insurance claims	External support, e.g. legal, brokers Review of insurance files from underwriter

3.11. Anti-Money Laundering Policy

- 3.11.1. This policy was similarly extensively updated previously and is an Annex to the Anti-Fraud and Corruption Policy. Again, the risk of money laundering against SCC is deemed **Very Low Risk**, which is the same conclusion that a number of

other local authorities have also reached. SCC will only accept a maximum of £5,000 in cash, and money that has already gone through the banking system has gone through their own extensive anti-money laundering checks. Plans to substantially reduce cash handling and transactions, with more electronic payments under our emerging Cash Handling Policy, and a target to becoming “cashless” by April 2021 will also reduce the risk further.

3.11.2. The CIPFA Guidance for Local Authorities on Money Laundering makes it clear that Local Authorities are not obliged to comply with the Money Laundering Regulations 2007, but the guidance does recommend that public service organisations should embrace the underlying principles of the money laundering legislation and regulations.

3.11.3. The role of Money Laundering Reporting Officer (MLRO) is a specifically set out one to support the legislation in the event of any such case arising.

The Money Laundering Reporting Officer (MLRO) will now be the Funds & Investments Manager, following the departure of the Strategic Manager – Governance, ECI and Corporate Services. It will be for the MLRO to ensure the appropriate investigate of any Money Laundering allegations and to liaise with the Police.

4. Consultations undertaken

4.1. All policies were reviewed in conjunction with the s151 officer.

4.2. All policies were updated previously with significant support from SWAP.

5. Implications

5.1. Measures contained within this report will be used to protect SCC from fraud in the forthcoming year.

6. Background papers

6.1. “Fraud and Corruption Tracker Summary Report 2018” CIPFA
“National Fraud Initiative Report 1 April 2016 to 31 March 2018” Cabinet Office
“Code of practice on managing the risk of fraud and corruption” CIPFA
“The local government counter fraud and corruption strategy” Fighting Fraud and Corruption Locally (also Companion and Checklist documents)
“Annual Fraud Indicator 2017 Identifying the cost of fraud to the UK economy” Experian and others
“United Kingdom Anti-Corruption Strategy 2017-2022” HM Government
“Protecting The English Public Purse 2016” TEICCAF

Note: For sight of individual background papers please contact Pam Pursley:
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