Somerset County Council
Audit Committee – 22 July 2021

Anti-Fraud and Corruption Review

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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary

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, the council compares 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 has a sound framework in place, although more could be done to raise awareness and clear the reporting lines. The council continues to see a small number of fraud allegations, some leading to more formal investigations from SWAP, (and leading to reporting to Action Fraud or the Police as appropriate).

1.4. The Council has an established suite of Anti-Fraud and Corruption Policies covering; Anti-Fraud, Anti-Bribery, Anti-Tax evasion and Money Laundering, all are subject to annual approval by this Committee. The policies set out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud, corruption and other financial irregularity. It also covers the key responsibilities with regard to fraud prevention, what to do if fraud or financial irregularity is suspected and the action that will be taken by management.

2. Issues for consideration / recommendations

2.1. The Committee is asked to look at the current national trends and to consider and comment on the specific anti-fraud and corruption measures undertaken and planned locally (section three).

2.2. The Committee is asked to confirm the updated Anti-Fraud and Corruption (**Appendix A**), the Anti-Bribery (**Appendix B**) and the Anti-Money Laundering policies (**Appendix C**).

2.3. The committee is asked to re-confirm the Anti-tax evasion policy that remains in place. (**Appendix D**)

2.4. The committee is asked to approve delegated authority to the Director of Finance for updating the policies with any changes to job titles or reporting lines.

2.5. The Committee is invited to comment on the local fraud cases in (**Appendix E**).

3. Background

3.1. Fraud prevention is high on the national agenda with a sustained level of instances being reported when compared to the previous year. Many organisations now provide guidance / information about combatting public sector fraud. Most notably Government have produced an anti-corruption strategy 2017-2022, which is revised annually. Several other publications are included in the Background Papers section of this report.

3.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) has a large role to guide counter fraud work in the public sector, with a dedicated Counter Fraud Centre, established since 2014, and it's published "Code of practice on managing the risk of fraud and corruption".

3.3. There is plenty of guidance as to how to prevent and combat fraud locally. The majority advise following a process such as CIPFA's 'Acknowledge Responsibility – Identify Risks – Develop A Strategy – Provide Resources – Take Action' process.

The Council has reviewed its arrangements in line with the CiFAS Fighting Fraud and Corruption Locally Strategy (2020) – the Local Government blue print for tackling fraud in the public sector. These are adopted and set out in the anti-fraud strategy and outlines the 5 pillars for effective fraud management; Govern, Acknowledge, Prevent, Pursue and Protect.

3.4. There are various publications 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. For example, many commentators consider that for the public sector in general the five greatest areas of perceived fraud risk are; procurement, council tax single person discount (SPD), Business Rates, adult social care and Council Tax Reduction.

3.5. National fraud trends

CIPFA's Tracker Report 2020, the most recent survey of Public sector fraud, estimates that nearly 47,000 frauds were detected or prevented across local authorities in 2019/20, with a total value of close to £239m, (an average value per fraud case of approximately £5,090). The previous year, 2018/19, there was an estimated value of £253m with a lower average of £3,600 per case detected and prevented.

Taken from the CIPFA tracker, 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.

Broadly, these figures are consistent with previous year's surveys however there has been a proportional change between Council Tax which has decreased from 78.9% to 65.1% and Housing fraud which has increased by 5.5% and Disabled parking concession by 7% volume in the 2019 survey. These results are from all local authorities (County, District, Unitary and Metropolitans), and so not all fraud categories are direct fraud risks to this Council.

Chart 1: Detected fraud by volume

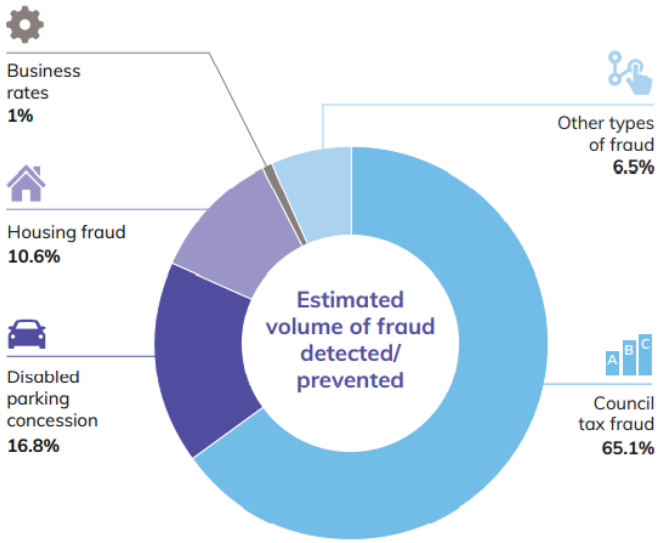
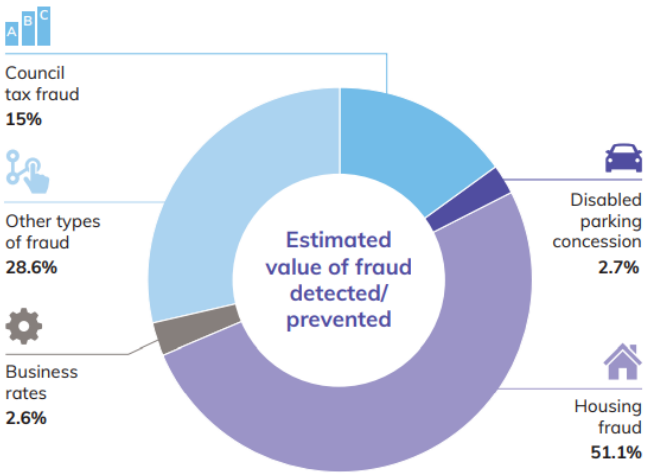


Chart 2: Detected / Prevented fraud by value



Many of the "traditional" fraud risks are not directly applicable to this Council, such as housing tenancy and benefits, welfare and Right To Buy frauds. However, there are several key findings that come from the CIPFA survey, that do have direct implications for the Council in terms of specific fraud risks.

3.6. Specific national fraud risks

Council Tax and Business Rate fraud. The fraud instances on these are largely the direct evasion of payments due or falsification of information to secure exemptions or relief. With Council Tax this applies most significantly to the misapplication of Single Person Discount. Whilst this fraud is not directly targeted at the County Council, it bears financial loss against the budgeted core funding.

Disabled parking concession (Blue Badge) fraud. CIPFA estimates that the cost per instance of Blue Badge fraud for rural counties has increased from £661 per instance to £811 per instance. A SWAP internal audit from 2018/19 concluded the Customer Management System was found to provide an adequate level of control and a reasonable assurance opinion was given. The Council has introduced a new measure of monthly reviews of the CIFAS enhanced national database for new matches of reported fraudulent activity against named blue badge applicants.

Procurement fraud. For the fourth year in a row, procurement fraud was perceived to be the highest fraud risk area. Even with a small number of cases, because of the nature of fraud, the potential costs in each case to authorities is substantial. 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. Nationally 8% of the 87 reported cases were reported as 'insider fraud' where officers are involved.

Somerset County Council has a 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 Council also adheres to its Contract Procedure Rules and Standing Orders for the buying, renting and leasing of Goods, Services and Works. There are also internal controls with segregation of duties that mitigate the risk of 'insider fraud'. The amount of potential loss only serves to emphasise the need for compliance with our prescribed procurement processes. A joint finance and procurement lead project to review the compliance to purchase ordering and payments process is underway. Among many advantages, this will serve as a health check and review against policy and best practise that limits the ability for fraudulent activity.

Adult social care fraud. Adult social care fraud can happen in a number of ways: being charged for services not provided, misuse of Direct Payments, failure to be advised of individuals changes to health or financial status or Defrauding the vulnerable adult of their direct payments they were legitimately entitled too, usually by a friend or relative.

3.7. **Other frauds** that could directly impact against the Council include:

Insurance fraud for false claims. There have been no investigations at Somerset in recent years, and with use of the Claims and Underwriting Exchange database, the risk of fraud is considered relatively low.

Payroll fraud for unworked hours and expenses. The Council can take reasonable assurance this is a low risk area following previous SWAP audit reviews.

Mandate fraud claiming to be from suppliers and asking us to change their bank account details. Following an incident of fraud in this area, SWAP conducted a review of controls and processes, with all recommendations being implemented.

Concessionary Travel fraud. Necessary controls are in place to limit the possibility of fraud in this area and use of the National Fraud Initiative will allow the Council to update records periodically.

Pension fraud typically arises as a result of "Failing to disclose information" under the 2006 Fraud Act, where the Fund is deliberately not notified of the death of a beneficiary. In these situations, a pension will continue to be paid into the bank account of the beneficiary and accessed inappropriately. The National Fraud Initiative (NFI), introduced by the Cabinet Office, is a useful tool in recovering overpayments of pensions.

3.8. **The Covid-19 pandemic** has had a profound effect on all aspects of life and ways of working, which also increases the risk of fraudulent activity. This may be presented through increased opportunity, motivation or rationalisation to conduct fraud.

The specific areas where it is reported nationally that fraud instances have increased are:

- Cyber attacks, such as phishing and impersonation via email.
- Pressure to get the job done leading to breaking policy and controls.
- Fraudulent grant claims.
- Accessibility and security of information being hold at home.
- Procurement fraud, especially when the need for PPE was at its highest.
- Unsolicited offers of goods or other financial support where an advanced fee payment is required.

The Council has maintained its policies and working practices, where necessary introducing temporary or emergency updates. Administration of grants has been controlled and procurement have been well aware of the increased risk of fraud. A huge effort by our IT department has gone into enable remote working, development to VPN and regular password change reminders for hardware are in place. Cyber-attacks can be reported through the IT department for investigation and any possible data breaches are closely

monitored by the Data Governance team.

3.9. Proactive anti-fraud approach

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. Somerset County Council's latest information was uploaded to the National Fraud Initiative database in late 2020.

The output is currently being reviewed for any 'matches' but it is not expected this will lead to many cases that warrant investigation. 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

The Council subscribes to CIFAs, taking advantage of cross membership participation to identify fraud potentials and see current trends. As well as making use of its enhanced national database for new matches to reported fraudulent activity.

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.

- Secondly, we include a number of what are termed "key control audits" looking at our financial and related systems. In the 2019/2020 Internal Audit Plan, this includes audits on Accounts Payable (Creditors), Payroll, Treasury Management, and Debt Management Audits.

- Thirdly, capacity within the Internal Audit Plan for trained auditors to investigate individual allegations as they arise. A summary of the individual investigations have been carried out by SWAP auditors and Council staff during 2020 can be found at **Appendix E** of this report. This demonstrates some awareness and the policy is workable in practice.

- Fourthly, SWAP officers provide an expert advisory service to the Council and work closely with the Strategic Manger – Finance Systems and Governance on current trends or instances reported of fraud. SWAP supply monthly audit hot topic updates which will include fraud scenarios and specific fraud alert bulletins. An example of this working in practice was a misrepresentation fraud in another authority in relation to procurement of supplies. This was an alert bulletin issued by SWAP to which Somerset

responded by mail shotting suppliers and putting notice on the internet site as to how Somerset does business and what that looks like.

3.10. SWAPs fraud baseline assessment

SWAP undertook a Baseline Assessment of Maturity in relation to Fraud. This was across its partner organisations and provided the Council with an organisation view and a cross-partner comparison report.

For Somerset, it was assessed as partial with improvements in most areas required. This was shown to be a common outcome for many authorities.

The report outlines the necessary steps that the Council needs to take to develop maturity in relation to fraud. There are areas that continue to require improvement and work is underway to address these, namely; raising awareness and clearer reporting of fraud instances, developing training and embedding fraud in risk assessments.

Actions taken since this report include;

- naming the Strategic Manager – Finance systems and Governance as the lead officer for monitoring fraud,
- updating the suite of anti-fraud and corruption policies which are clearly held together on the HR intranet site,
- setting up a central database of reported suspected fraud,
- setting up of a specific email address **anti-fraud@somerset.gov.uk** for the reporting of fraud,
- clearer roles and requirements of the SWAP fraud technical team,
- introduced proactive work in line with CIFAs.

Further work planned includes:

- Induction and refresher training to be developed to raise aware of fraud and corruption, how to report suspicions or instances and clear indication of responsibilities within the Council.
- More regular communications to all staff via Core Brief and Our Somerset, sharing instances and acting as reminder to be alert.

- Incorporate fraud risk into the corporate risk management process.

3.11. Policies update

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 A).** The updates mainly focus on the latest five pillar approach to combating and preventing fraud and updates to job titles and posts as relevant.

Anti- bribery (**Appendix B**) and Anti-money laundering (**Appendix C**) policy updates both include updating the latest legislation and relevant job titles. The Key change is he role of Money Laundering Reporting Officer (MLRO), which is a specifically set out one to support the legislation in the event of any such case arising. The Money Laundering Reporting Officer (MLRO) is the Strategic Manager for Finance systems and Governance. It will be for the MLRO to ensure the appropriate investigate of any Money Laundering allegations and to liaise with the Police.

The Anti-tax evasion policy (**Appendix D**) remains as updated and written during 2020.

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

4. Consultations undertaken

4.1. All policies were reviewed in conjunction with the S151 Officer and 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 2020 - CIPFA
UK anti-corruption strategy 2017 to 2022 - www.gov.uk
Fighting Fraud and Corruption Locally Strategy (2020)- CiFAS
Report to the Nations 2020 – ACFE
NIAO Covid-19 Fraud RisksAugust 2020 – NIAO
Public Sector Counter Fraud Journal, Issue 6 – CIDS
Fraudscape July 2020 - Cifas

Note For sight of individual background papers please contact the report author