

Bath & North East Somerset Council

| | | |
|--|--|--------------------|
| MEETING: | Corporate Audit Committee | |
| MEETING DATE: | 1st May 2024 | AGENDA ITEM NUMBER |
| TITLE: | Risk Management – Update Report – Fraud Risk | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |

1 THE ISSUE

- 1.1 This report provides an update on a specific area of the Council's risk management arrangements to assist in providing assurance to the Committee on the system of risk management within the Council.
- 1.2 The Council's Corporate Audit Committee has responsibility within its terms of reference for overseeing the risk management framework of the Council.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to:

Note the report / presentation and the Council's approach to managing Fraud Risk.

3 THE REPORT

- 3.1 The Corporate Audit Committee has responsibility for overseeing the risk management framework within the Council. This does not mean accountability or responsibility for the risks which clearly sit with the respective Service area but the Committee does have a role in providing assurance that a system is in place and working.
- 3.2 At its last meeting the Committee received a detailed report on the Council's risk management arrangements, its corporate risk register and a presentation on roles and responsibilities in the Council's governance framework.
- 3.3 It was agreed that continued overview of risk management arrangements would include reviews of specific themes as well as corporate risks and the proposed forward look is set out as follows –
 - A) February 2024 – Overview of Corporate arrangements and Corporate Risk
 - B) May 2024 – Fraud Risk
 - C) September 2024 – Corporate Risk

D) November 2025 – Cyber Risk

E) February 2025 – Procurement Risk

F) May 2025 – Corporate Risk

3.4 This report explains Local Government fraud risks and work carried out to mitigate these risks. At the meeting, the components of this report will be presented by a member of the Internal Audit team who takes a lead role in counter fraud work. The presentation is entitled 'An introduction to Fraud and the role of Internal Audit'.

3.5 **National Picture and Emerging Fraud Risks**

3.6 The CIPFA Fraud and Corruption Tracker (CFaCT) survey is the definitive survey of fraud and corruption activity in local government. It tracks the level of fraud and corruption local authorities have detected, the number of investigations undertaken and the types of fraud encountered.

3.7 The CIPFA Tracker Report was last published in 2020 and detailed the main themes for national fraud indicators within Local Government. This can be accessed via the CIPFA website:

<https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fraud-and-corruption-tracker>.

3.8 The tracker report is supported by the National Audit Office (NAO) and the Local Government Association (LGA). The annual financial loss to fraud in the UK public sector was last estimated to be £40.3bn annually, with £7.3bn of this total being lost in local government. It is noted that more recent central figures are not published or available for consideration.

3.9 The current economic climate in the United Kingdom influenced by factors including the Ukraine crisis, recovery from the Covid Pandemic, and the cost-of-living crisis have the potential to increase the risk of fraud and irregularity as never seen before in the Public Sector

3.10 Key fraud risk areas in Local Authorities include, Council Tax Fraud, Disabled Parking Concessions (Blue Badge), Business Rates and Housing Fraud.

3.11 Information regarding known and emerging fraud risks are obtained from a number of organisations and professional bodies. One of these is the National Anti-Fraud Network (NAFN). NAFN are one of the largest shared services in the country, managed by, and for the benefit of its members. Currently, almost 90% of local authorities are members, including Bath and North East Somerset Council.

3.12 Fraud risks raised via NAFN Alerts received by Internal Audit are reviewed and distributed to relevant officers and service areas along with advice on how to action and respond to Alerts. Internal Audit offer follow up support with review of controls in affected areas, investigation and analysis of risk, and reporting to relevant central bodies and third parties.

3.13 **National Fraud Initiative**

- 3.14 The Internal Audit function also carry out other anti-fraud activity, such as co-ordinating the National Fraud Initiative (NFI) on behalf of the Council's Section 151 Officer.
- 3.15 Participation in the NFI in each two-year cycle is mandatory and incurs a fee payable to the Cabinet Office of £3,810 for a Unitary Authority.
- 3.16 The NFI is a Cabinet Office initiative, matching data from a large number of public and private sector organisations. These organisations provide data from their systems as prescribed by the Cabinet Office. The data is then matched, and data matching reports are made available for each participating organisation to review. It is for each organisation to make the necessary enquiries and any identified fraud is recorded within the NFI system to enable the effectiveness of the initiative to be monitored.
- 3.17 For Local Authorities such as Bath and North East Somerset Council, example data sets for matching purposes include (but are not limited to): Housing Benefit, Council Tax reductions, Payroll, Adult Social Care Personal Budgeting and Disabled Parking (Blue Badges).
- 3.18 Matches may be closed by identification of fraud (resulting in recovery where possible), error, or recorded as no issue. Closed matches result in a value assigned by the Cabinet Office, recorded as 'co-estimated savings'. These figures reflect the anticipated savings and reduction of likely losses made by identifying and amending anomalous record keeping and reducing and removing fraud risks.
- 3.19 Work on the current exercise (2022/23-2023/24) is nearing completion with one final pilot data matching exercise still in progress. A detailed outcome of the overall exercise will be reported to the Audit Committee once complete.
- 3.20 Members are advised that Bath and North East Somerset Council had a total of 3,230 matches to be reviewed across 61 reports. Current figures report co-estimated savings of £471,945. This is an increase of 764 matches and £191,373 compared to the 2020/21-2021/22 exercise.
- 3.21 Savings were identified in Blue Badges, Housing Waiting Lists, and Council Tax Reduction Scheme. A process of recovery is in action via Council Tax Support recharges totalling £4,242.04.

3.22 **Internal Audit Targeted Work and Investigations**

- 3.23 The risk of Fraud is considered during all internal audit planning activity. This includes right from initially building the Annual Audit Plan (i.e. the audit reviews planned to be carried out during the financial year) through to considering the objectives, fraud risks, controls and focus of each review to be carried out, i.e. each individual audit work programme.
- 3.24 Examples of audit reviews carried out and reported in 2023/24 that have involved an element of counter-fraud review / work include:

- **Payroll - Timesheet Generated Payments**

To ensure that timesheets are processed, resulting in accurate and timely payments and in compliance with Council policy.

- **Procurement - Purchase Card Expenditure**

To ensure that all card expenditure is for legitimate business use and considered 'reasonable'.

- **Deputyship Service**

To ensure security and safeguarding arrangements for client's monies, belongings and property are appropriate and effective.

- **Heritage - Income Collection & Banking**

Cash and electronic payments received at Heritage Service business units are accurately recorded at point of sale / collection.

Income (cash and electronic payments) reconciliation discrepancies are investigated, and necessary action taken promptly.

- **School Theme Review - Schools Financial Value Standard**

Protecting Public Money - Are there adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers?

- **Travel Perk**

To ensure all bookings made through click travel are compliant with the Councils Corporate Travel Policy

- **Foster Care Placement Payments**

To ensure that foster carer fees/rates are applied correctly, accurately, consistently, and timely.

3.25 **Data Analytics**

3.26 Data analysis and data matching are important tools for identifying fraud and error in local government. The Fighting Fraud and Corruption Locally Strategy for the 2020s recommends that local authorities should share data across its own departments and engage in the use of data analytics as a key response to fraud.

3.27 Data Analytics at Bath and North East Somerset Council incorporates participation in the National Fraud Initiative (see section 3.2), and data matching undertaken as part of audit testing for individual audit reviews using spreadsheets or more advanced internal audit data analytics software (IDEA).

3.28 Examples of audit reviews reported in 2023/24 that have involved an element of Data Analytics include:

- **Income Management – Collection & Reconciliation of Service Provision Income**

Use of data analytics to match Civica transactions to the Council's General and District bank account statements.

- **Bankline - Treasury Management Investment & 'Other Council Payment' Transactions**

Use of data analytics to verify internal control compliance including – matching treasury investment transactions to the Council’s & Pension Avon Fund bank account statements.

3.29 **Investigations**

3.30 During Internal Audit investigations, the themes of ‘prevent and pursue’ as recorded in the Anti-Fraud and Corruption Strategy are the focus of the work of the Auditor. The key objectives are to:

a) Identify the breakdown in controls and correct this to avoid further losses.

b) Collect evidence to be able to pursue responsible individuals, i.e. through criminal prosecution or a disciplinary route.

In 2023/24 the Internal Audit Service have carried out investigations into a case of deceit to claim Homes for Ukraine funding (external fraud), and a case of theft and fraud from a Community Resource Centre.

3.31 **Strategy & Policy Framework**

3.32 Nationally, the Fighting Fraud and Corruption Locally 2020 document is the most recent counter fraud and corruption strategy for local government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities.

3.33 The Council’s own Anti-Fraud & Corruption Strategy 2022-24 adopts the national strategy at a local level and is the “umbrella strategy” that brings together all fraud related policies. Its objective is to ensure that the Council is proactive in preventing and detecting fraudulent activities and corrupt practices and takes the necessary action to punish those involved and recover losses.

3.34 Policies linked to the Strategy include the following:

i) Whistle Blowing Policy 2022

ii) Anti-Money Laundering Policy 2022

iii) Anti-Bribery & Corruption Policy 2022

3.35 **Whistleblowing**

3.36 Internal Audit manage both the internal and external Whistleblowing resource, wherein Council employees and the public can report any dangerous, illegal or unethical activity that they think is going on within the organisation or by partners / contractors.

3.37 This is made available internally on the Intranet and on the public Council website. Submissions can be made by the public or from Council Members and employees, either anonymously or openly. A simple online referral form can be used, or alternatively contact names via email and telephone are provided. The Policy also signposts an alternative reporting route of Prescribed Persons such as the Council’s External Auditor.

- 3.38 In the financial year 2023/24, Whistleblowing 'Report-It' submissions have been received and these have been forwarded to the relevant service areas for review and action. It is interesting to note that there have not been any whistleblowing referrals classed as 'financial irregularity' for the Internal Audit team to investigate.
- 3.39 The low level of reported fraud and corruption is comforting on one level but we could also conclude that we are just not hearing or identifying inappropriate activity. We will continue to review our counter fraud practices including highlighting to stakeholders their responsibilities and how to report 'concerns'.
- 3.40 **Staff Training and Awareness**
- 3.41 A sustained focus on providing fraud information and awareness to staff has continued throughout the year, with regular articles published in the Staff Engagement Newsletter.
- 3.42 A special article to coincide with 'International Fraud Awareness Week' (12th-18th November 2023) was published, outlining all the key fraud prevention information that is available to officers, and detailing up to date information on the following headings:
- What is Fraud?
 - Fraud and Local Government
 - Why is Preventing Fraud Important?
 - Who Commits Fraud and Why?
 - Whistleblowing
 - The Evolution of Cyber Fraud
 - Our Strategy and Policies
 - The Role of Internal Audit in Tackling Fraud
 - Training and Resources
- 3.43 The Internal Audit service have also produced articles for Staff Engagement Newsletters covering the National Fraud Initiative; the new central Government 'Stop! Think Fraud' initiative; the emergence of QR (Quick Response) code fraud, and Whistleblowing.
- 3.44 Recent work has been carried out to liaise with the eLearning team to bring up to date and increase the content of the online Fraud Awareness training tools accessible to Council employees.
- 3.45 Through circulation of training, advice and fraud alerts to staff, and continued work with service areas that are particularly exposed to fraud; prevention and detection action by officers has been embedded in processes and practices.
- 3.46 An example of this was when an attempted mandate fraud was prevented by the Accounts Payable team. They received email correspondence from a fraudster

purporting to be the 'Director' of a company asking the Council to update the suppliers bank details.

- 3.47 The Accounts Payable team followed the correct procedures and telephoned the company Director, using previously verified contact details, to verify the legitimacy of the change of bank details email. The real Director confirmed that this was a scam and that his email address had seemingly been compromised.
- 3.48 The Accounts Payable team were congratulated on preventing this fraud and for continuing to follow the robust controls previously agreed with Internal Audit.

4 STATUTORY CONSIDERATIONS

- 4.1 There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIPFA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 This is an information and update report so there are no direct implications arising from this report.

6 RISK MANAGEMENT

- 6.1 No decision or recommendation is being made and this report details the council's approach to risk management. As a result, there are therefore no new significant risks to consider in relation to this report.

7 EQUALITIES

- 7.1 An equalities impact assessment has been considered using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

- 8.1 There are no direct climate change implications related to this report. In terms of risk management, risks associated with the Council's roles in respect of climate change are captured at different levels, including in the CRR and other risk registers.

9 OTHER OPTIONS CONSIDERED

- 9.1 This is an update report, no decisions or recommendations are being proposed so no other options are being considered.

10 CONSULTATION

- 10.1 The report is an information and update report and has been consulted with the Council's S151 Officer.

| | |
|--|--|
| Contact person | Jeff Wring – Director – One West & Avon Pension Fund Andy Cox, Head of Audit & Assurance (01225 477316) |
| Background papers | |
| Please contact the report author if you need to access this report in an alternative format | |