

Fraud Risk Assessment February 2020

Area	Residual Risk	Comment	Additional Internal Audit / Counter Fraud Action
Creditor Payments	High	<p>The council spent £122m on supplies and services in 2018/19. All payments above £500 are published in line with UK legislation. This information can be used by criminals to target the council directly or through its suppliers.</p> <p>A range of frauds can be committed against the council through use of this data. The most common is mandate fraud where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in banking details. Strong controls have been put in place to combat this type of fraud - although regular fraud awareness training will help to ensure that issues are prevented from occurring due to human error.</p> <p>Councils in our area have been affected by mandate fraud in the last year. Criminals are often found to be operating from overseas. Other types of fraud in this area include whaling, where senior members of the council are targeted and impersonated in order to obtain fraudulent payments.</p>	<p>The counter fraud team (CFT) will continue to raise awareness of these types of frauds. The more staff are aware of these frauds the greater the chances are of stopping them.</p> <p>All instances of whaling fraud will be reported to the police's Action Fraud Unit, National Cyber Security Centre, and directly to the host that the false emails originated from.</p> <p>This remains an inherently high risk area so the internal audit team (IA) reviews creditor payments annually and</p>

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		This area was last reviewed by Internal Audit (IA) in 2018/19 and received a Substantial Assurance opinion.	undertakes quarterly checks on duplicated invoices.
Cybercrime	High	<p>Cybercrime is a constantly evolving area where criminals are continually refining their techniques in order to overcome controls put in place to protect organisations.</p> <p>The council has a highly skilled ICT department which helps mitigate the threat of cybercrime. However, the area is a high risk as councils are attractive targets for criminals due to the amount of data they hold on residents and the value of transactions the council administers.</p> <p>Types of cybercrime experienced by local authorities in recent years include ransomware, phishing, whaling, hacking, and denial of service attacks.</p> <p>The last audit in this area was finalised in 2019, which reviewed ICT Governance and Cybersecurity, and substantial assurance was given.</p>	A cybercrime awareness week was held in September 2019 to raise awareness of this issue amongst council staff. Further awareness raising will be considered in 2020.
Social Care Payments	High	Fraud within the adult social care system is an area of concern for the council in terms of loss to authority and	The CFT is undertaking datamatching in this area.

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<ul style="list-style-type: none"> - misuse of direct payments - avoidance of charges - false residential & nursing home payments 		<p>the impact on individuals affected. The CFT regularly detect large amounts of loss to the council due to adult social care fraud. Over £327k of loss has been detected since April 2018.</p> <p>One area where loss can occur is through deprivation or non declaration of capital which can involve the transfer or disguise of property in order to avoid paying for residential or domestic care provision. The CFT is currently developing data matching projects which involve the use of council tax data to try to identify this type of fraud.</p> <p>The CFT continues to work to increase visibility with officers involved in safeguarding and financial assessments. Fraud awareness training has been delivered to a number of teams in this area. The council successfully prosecuted its first adult social care fraud case this year.</p>	<p>in 2020 and will continue to raise awareness amongst staff.</p> <p>An audit is currently underway looking at the financial assessment system.</p>
Procurement	High	Procurement fraud is a high area risk throughout the public sector. It has been perceived as a high risk by local authorities in the Cipfa Tracker for a number of years.	The CFT will trial a CMT tool designed to detect cartels in the bid process.

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		<p>Procurement fraud, by nature, is difficult to detect but can result in large scale loss of public funds over long periods of time. The Competition and Markets Authority (CMA) estimates that having a cartel within a supply chain can raise prices by 30% or more.</p> <p>Cipfa reported losses of £20.3 million in 2018/19. It found that 12% of fraud detected in this area involved 'insider fraud' and 5% involved organised crime.</p> <p>It is important that the council is aware of the risks and signs of procurement fraud. Procurement controls will continue to be reviewed on an ongoing basis by internal audit.</p>	<p>An audit on procurement will form part of work this financial year and next. It is currently in the planning stage.</p>
<p>Housing Related Fraud</p> <ul style="list-style-type: none"> - fraudulent applications for social housing - unlawful sub-letting - property 	<p>High</p>	<p>Maintaining a strong gateway when people first access housing services is the best way to protect council housing assets.</p> <p>In York most subletting is to friends and family which makes proving the crime more difficult than if it was purely a commercial arrangement with an unknowing participant. This crime removes a property from a person or family in true need of a council property and can cost the council financially if people are in</p>	<p>CFT is conducting data matching exercises in 2020/21 to detect potential housing fraud.</p>

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<p>abandonment - right to buy</p>		<p>temporary accommodation and are waiting for a suitable property to become available.</p> <p>After 5 years a tenant is eligible to purchase a property at a discount which rises every subsequent year the tenant lives in it. Right to buy (RTB) fraud deprives the council of an asset, rental income and makes it more difficult and expensive for the council to house homeless people and families. Cipfa reported an estimated 3,360 cases of fraud or attempted fraud detected in 2018/19.</p> <p>There is a risk that criminal or terrorist funds are laundered through council RTBs. Under money laundering regulations the council is encouraged to report suspicions of money laundering to the National Crime Agency. RTB applications are the most likely area of council contact with money laundering.</p> <p>An audit into housing fraud was completed last year and an opinion reasonable assurance was given.</p>	
<p>Council Tax and Business Rate exemptions and</p>	<p>High</p>	<p>Council Tax fraud can be a common occurrence. Cipfa report that 81% of all local government related fraud recorded as part of their annual survey involved Council Tax or Business Rates payments. Single</p>	<p>CFT investigate and raise awareness of fraud in these areas. There is currently an</p>

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discounts		<p>Person Discount (SPD) fraud accounted for £19.4m of loss due to fraud in 2018/19 according to the survey.</p> <p>The Council is due to move to a continuous monitoring system for SPD fraud in the near future. This should help prevent and detect more fraud in this area with the most serious cases being referred to the CFT for action.</p> <p>A fraud involving the payment of business rate bills with stolen credit cards followed by a request for reimbursement to a different account occurred at a number of local authorities in North Yorkshire and nationally in 2019/20. The council's NNDR team was made aware of this as soon as the frauds occurred but no activity was detected at the council.</p>	ongoing audit looking at council tax and NNDR issues.
Council Tax Support (CTS) and York Financial Assistance Scheme (YFAS)	High	<p>Council Tax Support is a council funded benefit introduced in 2013 to replace Council Tax Benefit. Unlike its predecessor Council Tax Support is resourced entirely through council funds.</p> <p>The CFT receives a high level of referrals in this area. Average overpayments are relatively modest but are increasing year on year. Cipfa's fraud tracker showed</p>	<p>CFT investigate and raise awareness of fraud in these areas.</p> <p>IA are currently undertaking an audit in this area.</p>

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		<p>an 18% increase in the value of fraud in this area found in 2018/19.</p> <p>Last year IA completed an audit into CTS arrangements and gave it high assurance.</p> <p>The York Financial Assistance Scheme provides financial aid to people in the greatest need however the system can be abused. Offences predominantly involve applications for goods that are unwanted or not needed, which will subsequently be sold. The council has prosecuted serious cases of fraud in this area.</p>	
Theft of Assets	High	<p>Theft of assets within organisations can affect them financially, reputationally, and negatively impact on employee morale. The council owns large numbers of physical items, such as equipment and tools.</p> <p>It is important that controls are in place to prevent theft but members of staff should also be vigilant and report all possible thefts promptly to the Police and CFT.</p>	<p>CFT to ensure that policies relating to covert surveillance are up to date.</p> <p>IA conduct unannounced visits to council offices during the course of each year to detect issues surrounding office and data security.</p>
Money Laundering	Medium	Money laundering is the process of transferring the profits of crime and corruption into legitimate assets.	CFT to support the council where money

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		The council can be exposed to money laundering through areas such as property sales (e.g. right to buy) and business rates. Failure to report suspected money laundering to the National Crime Agency can result in the council being liable for money laundering or terrorist financing offences. It is important that all members of staff who deal with cash or large amounts of money are aware of the council's responsibility to report any suspected money laundering.	laundering is suspected.
Waste	Medium	While there has been little indication of fraud in this area in the last few years, the Home Office has recently singled out this area as being susceptible to organised crime.	IA are currently conducting an audit in this area.
Cash Collection	Medium	While cash handling is inherently risky, amounts of cash transactions at York are relatively low.	IA are currently looking at cash collection in Economy and Place directorate.
Corruption	Medium	Corruption is a significant risk to all public sector organisations however only low levels have ever been detected. CFT investigate any suspicions of corruption while IA ensure that appropriate checks and balances are in place to help prevent it, for example registers of gifts and hospitality and interests.	N/A
Employee	Medium	There are a range of potential risks including falsifying	N/A

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Frauds		timesheets and expense claims, abusing flexitime, or annual leave systems, working while sick, or working for a third party on council time. These types of fraud are generally common within large public bodies. While the values involved in individual cases may not be high, it is essential that issues are tackled as they can cause reputational damage and affect staff morale and performance. CFT work with the Human Resources team to investigate all suspicions of employee fraud.	
Housing Benefit	Medium	<p>The DWP are responsible for the investigation of Housing Benefit (HB) fraud. The CFT monitors their performance and facilitates transfer of information to support their investigations.</p> <p>The ability to jointly work between the councils and DWP began in May 2019, however there have only been small numbers of cases jointly worked on to date.</p> <p>An audit was conducted in this area in 2018/19 and was given a high assurance rating.</p>	There is an audit in this area currently ongoing.
Inappropriate Use of Council Equipment And	Medium	Veritau investigate any allegations of inappropriate private work and misuse of council equipment and materials by members of staff.	N/A

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Vehicles And Materials			
Misuse of Internet / E-Mail	Medium	With nearly all employees having access to computer systems at work, training on acceptable use of council internet and email is crucial. Failure to do so could result in loss of working hours to personal endeavours and even reputational damage if inappropriate materials are accessed.	N/A
Free Early Education Funding	Medium	Historically this has been an area of high risk with children being booked into multiple nurseries to gain credits in excess of allowed hours and providers overstating claims. An audit was conducted in 2018/19 and reasonable assurance was given.	IA review this funding regularly.
Other Establishments (Eg Social Services)	Medium	Services tend to operate within the wider CYC framework e.g. they use central financial systems such as ordering procedures. Cash holdings such as petty cash, meals income, customer contributions for activities etc are generally low. However, there are reputational risks as theft can involve customer monies, and controls tend to be not as strong due to their remoteness. The CFT investigate any reported instances of fraud in this area.	N/A

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Payroll Related Fraud (Eg "Ghost" Employees)	Medium	<p>Regular audits of the payroll system help to ensure that robust controls are in place. There have been no recent reported issues in the last year.</p> <p>An audit was completed last year which gave a substantial assurance rating.</p>	IA are currently conducting an audit into this area.
Provision of Grants to Individuals and Organisations	Medium	<p>Fraud risks depend on various factors such as the grant recipient, its purpose, the type of scheme and the value of the grant. Risks include fraudulent applications, and inappropriate use of funding.</p> <p>Controls to prevent fraud include checks on applicants, robust decision making processes, clear/well drafted funding agreements, and monitoring. Grant funding systems are reviewed periodically by internal audit and investigations are undertaken by Veritau where fraud is suspected.</p>	N/A
Recruitment	Medium	Recruitment fraud can affect all organisations, for example where false information is provided in order to gain employment such as lying about employment history and qualifications or providing false identification documents to demonstrate the right to work in the UK.	N/A
Blue Badge &	Low	Blue Badge fraud carries low financial risk to the	N/A

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Parking Permit Misuse		<p>authority but can affect the quality of life for disabled residents and visitors to the city. There is a risk of reputational damage to the council if abuse of this scheme is not addressed.</p> <p>CFT and Parking Enforcement work closely together to identify and deter parking fraud. Days of action are held regularly in the city centre where all badges are checked for misuse.</p>	
Cheque Fraud	Low	Risks include interception of cheques by third parties and diversion of payments from the intended recipient. There have been no recent reports of thefts of this type. The risk is decreasing as the use of cheques declines.	N/A
Car Parks Cash	Low	Collection of cash from council car parks was outsourced in April 2013.	N/A
Debtor Systems (e.g. parking penalty charges, sundry debtors, housing rents)	Low	The main risk is the inappropriate cancellation of debts which may be used to disguise theft. Controls, such as separation of duties, remain in place and are audited regularly. There are a number of smaller income systems across the council and while it is more difficult to maintain the same level of control as for the mains systems the risks tend to be smaller. There have been	IA is currently undertaking an audit in this area.

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		<p>no recent reports of fraud relating to credit income systems.</p> <p>In 2018/19 IA conducted an audit in this area and provided an opinion of substantial assurance.</p>	
Fraudulent Insurance Claims	Low	While insurance fraud is common, the burden of risk is currently shouldered by the council's insurers who have established fraud investigation systems.	An audit in this area is currently being planned.
Schools	Low	<p>The council has a high level of financial delegation to schools with all schools operating their own bank accounts. However, there are good support arrangements in place and individual schools are aware of the procedures and controls that should be in place.</p> <p>While relatively minor incidents are reported fairly frequently (eg theft, breaches of financial regulations) there have been no major issues resulting in a significant loss. Such events have, however, occurred at schools in other areas and when these matters have been investigated, the losses have tended to be substantial (and attracted adverse publicity for both the school and the authority concerned).</p>	IA is currently undertaking work on procurements cards at a number of local schools.

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		An audit into budget management was completed in 2018/19 and was given substantial assurance.	
Treasury Management	Low	The impact of losses in this area could be significant. However, systems are well controlled and subject to regular internal audit review.	N/A