

Audit and Governance Committee

7 February 2018

Report of the Head of Internal Audit

Counter Fraud Framework Update

Summary

- 1 The council approved a new counter fraud and corruption strategy and associated action plan in 2017. This report updates the committee on progress against the actions set out in the strategy and adds new actions for the next financial year. In addition the council's counter fraud risk assessment has been updated to reflect fraud risks currently facing the council.

Background

- 2 In 2017/18 fraud continues to be seen as a significant risk to the UK public sector. The National Audit Office as part of its annual central government review¹ noted the importance of detecting and preventing fraud within the public sector as a duty to the tax payer as well as presenting an opportunity to produce significant savings. While written for central government the reports conclusions are equally applicable to local authorities. In 2017 it was estimated that the UK public sector loses £40.4 billion annually due to fraud.²

Recent Guidance and Developments

- 3 Cifa recently released the results from their latest annual local government fraud survey (the Counter Fraud and Corruption Tracker - CFaCT). The CFaCT report, included in Annex 1, highlights council tax as the biggest area of fraud detected by local authorities by volume (76% of cases) - for example single person discounts and CTRS fraud. It also highlights housing fraud as the largest area of loss amongst councils who own housing stock. While there continues to be a need to focus counter fraud resources in these areas, the report also highlights growing levels

¹ Fraud Landscape Review, 2016

² Annual Fraud Indicator 2017, Identifying the cost of fraud to the UK economy, Crowe Clark Whitehill, University of Portsmouth, Experian.

of detected fraud in other areas. For example there were 197 identified occurrences of procurement fraud reported during the 2017 survey with a value of £6.2m. This echoes a report by the Home Office³ in 2016 which highlighted procurement fraud as an area for focus. The findings pointed towards serious and organised crime involvement in local government procurement processes with particular emphasis on waste, taxi and transport services.

- 4 Recent years have also seen a rise in cyber attacks on the public sector - recent high profile examples include WannaCry, which affected the NHS and Parliament (WannaCry is a form of ransomware that encrypts system data and demands payment to unlock it). Attacks on local government can result in an inability to provide key services as well as the theft of sensitive data. The National Cyber Security Centre (NCSC) was established in 2016 to provide guidance and expertise in this area. As part of its response to the cyber attacks experienced in May 2017 the NCSC is promoting its CyberAware campaign to help avoid these types of attacks. The campaign encourages organisations to adopt good cyber security habits such as ensuring that operating systems and software are regularly updated.
- 5 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations (MLR 2017) came into force in June 2017. The new regulations put greater responsibility on organisations to mitigate the risks associated with money laundering by ensuring appropriate policies and risk assessments are in place. While not specifically covered by the regulations, local authorities have a broad responsibility to be aware of the potential for money laundering and criminality in their management of public funds. New standards of due diligence in the regulations to verify the true beneficiaries of financial transactions should therefore be considered. For example in right to buy or other high risk transactions.

Counter Fraud Framework Review

- 6 The council's Counter Fraud and Corruption Strategy 2017-19 was approved by in February 2017. The strategy takes into account the national collaborative counter fraud strategy for local government in the UK (Fighting Fraud & Corruption Locally). It also takes into account the principles set out in Cipfa's Code of Practice on Managing the Risks of Fraud and Corruption (2014). No changes

³ Home Office – Organised Crime Procurement Pilots 2016

are required to the main body of the strategy, however the associated action plan, in Annex 2, has been updated to indicate progress on tasks as well as new objectives for 2017/18 and 2018/19.

- 7 It is recognised good practice for councils to assess their risk of fraud on a regular basis. A counter fraud risk assessment was first produced for the council in 2012 and is updated annually. The risk assessment included in restricted Annex 3 is the latest update of that document. A number of specific actions are included in the risk assessment. These include work to be undertaken by both the internal audit and the counter fraud teams as part of their 2017/18 and 2018/19 plan of work for the council.
- 8 As part of this review the council's Counter Fraud Policy has also been reviewed but no changes are required.

Consultation

- 9 Not relevant for the purpose of the report.

Options

- 10 Not relevant for the purpose of the report.

Analysis

- 11 Not relevant for the purpose of the report.

Council Plan

- 12 The work of internal audit and counter fraud supports overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 13 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**

- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 14 The council will fail to comply with proper practice if counter fraud and corruption arrangements are not reviewed periodically.

Recommendations

- 15 Members are asked to;
- comment on the updated Counter Fraud and Corruption Strategy Action Plan in Annex 2

Reason

In accordance with the committee's responsibility for assessing the effectiveness of the Council's counter fraud arrangements.

- comment on the updated Fraud Risk Assessment and proposed priorities for counter fraud work set out in Annex 3.

Reason

To ensure that scarce audit and counter fraud resources are used effectively.

Contact Details

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**Report
Approved**

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Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Fighting Fraud & Corruption Locally - The local government counter fraud and corruption strategy 2016 - 2019

The Code of Practice on Managing the Risks of Fraud and Corruption (Cipfa 2014).

Annexes

Annex 1 – CIPFA Fraud and Corruption Tracker 2017

Annex 2 – Counter Fraud and Corruption Strategy Action Plan

Exempt Annex 3 - Counter Fraud Risk Assessment