

Audit & Governance Committee

Date of Meeting: 03 October 2019

Report Title: Counter Fraud Update

Senior Officer: Jan Bakewell, Director of Governance and Compliance Services

1. Report Summary

- 1.1. The Audit and Governance Committee has responsibility for overseeing the Council's arrangements to counter the threat of fraud and corruption. As such, it is important that the Committee is kept up to date with the latest developments, both locally and nationally.
- 1.2. This report provides members with:
 - 1.2.1. an overview of developments that are taking place nationally
 - 1.2.2. an update on counter fraud activity in Cheshire East
 - 1.2.3. details of ongoing work to ensure compliance with best practice and improve Cheshire East's resilience to the threat of fraud and corruption.

2. Recommendation

- 2.1. That the Committee considers and notes the content of the report.

3. Reasons for Recommendations

- 3.1. In order to ensure that the Council has robust arrangements to counter the threat of loss through fraud and corruption it is essential that the relevant systems and procedures are subject to regular review against best practice and that identified weaknesses are managed.
- 3.2. The role of the Audit and Governance Committee in overseeing the Council's counter fraud arrangements is crucial for the Council to achieve its anti fraud and corruption objectives.

4. Other Options Considered

- 4.1. Not applicable.

5. Background

National Picture

- 5.1. Fraud is a major issue facing the United Kingdom, and local government is not immune from this. The last and most comprehensive set of figures relating to the scale of fraud losses was published in the Annual Fraud Indicator 2013. This was prepared by the National Fraud Authority prior to it being dissolved in March 2014, and estimated total fraud loss against public bodies as £20.6bn with £2.1bn of this relating to Local Government.
- 5.2. Following the abolition of the National Fraud Authority, responsibility for the promotion of anti-fraud and corruption arrangements was passed to CIPFA.
- 5.3. In response, CIPFA launched the Counter Fraud Centre in July 2014 to lead and co-ordinate the fight against fraud and corruption across public services. It is the UK's centre of excellence for counter fraud.
- 5.4. The Centre has close links with the Ministry of Housing Communities and Local Government (MHCLG), the National Crime Agency (NCA), Cabinet Office and other agencies with the aim of supporting counter fraud practitioners:
 - 5.4.1. Save money by increasing organisations' ability to detect, prevent and recover losses from fraud.
 - 5.4.2. Protect reputations by providing access to a comprehensive package of tools, training and consultancy to manage and minimise risk.
 - 5.4.3. Develop valuable skills by offering new professional qualifications as well as CPD modules that explore the latest counter fraud threats and issues.
- 5.5. One of the first outputs from the centre was the publication, in October 2014, of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- 5.6. The Code is based upon the following five principles and the guidance notes provide detailed information on the implementation of each:
 - 5.6.1. Acknowledge the responsibility of the governing body for countering fraud and corruption
 - 5.6.2. Identify the fraud and corruption risks
 - 5.6.3. Develop an appropriate counter fraud and corruption strategy

- 5.6.4. Provide resources to implement the strategy
- 5.6.5. Take action in response to fraud and corruption
- 5.7. In addition to the Code of Practice, “Fighting Fraud and Corruption Locally” is the national counter fraud and corruption strategy for local government. The strategy covers the financial years from 2016-2019 and aims to enable local authorities to:
 - 5.7.1. develop and maintain a culture in which fraud and corruption are understood to be unacceptable;
 - 5.7.2. understand their fraud risk and prevent fraud more effectively;
 - 5.7.3. use technology to improve their response;
 - 5.7.4. share information and resources more effectively to prevent and detect fraud loss;
 - 5.7.5. bring fraudsters to account more quickly and efficiently; and
 - 5.7.6. improve the recovery of losses.
- 5.8. An updated “Fighting Fraud and Corruption Locally” is currently in development and a member of the Cheshire East Council Internal Audit team has contributed to focus groups and workshops held nationally to shape and develop the strategy.
- 5.9. In addition, the Council has recently worked with MHCLG on a country-wide procurement fraud project. The aim of the project was to identify and quantify the risk to local government of procurement fraud and to develop strategies that can be used to mitigate this risk. MHCLG are expected to issue their report towards the end of 2019.

Counter Fraud activity in Cheshire East

- 5.10. The National Fraud Initiative (NFI) is a biennial national data matching exercise under the jurisdiction of the Cabinet Office. The NFI exercise matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local authorities and a number of private sector bodies. Over 1,200 participating organisations take part in the NFI.
- 5.11. The original purpose of the exercise was to detect benefit fraud and, although this remains a major objective, the scope of the exercise has extended to include other areas of local authority expenditure.

- 5.12. These exercises have been very successful and it is estimated that nationally, fraud and error totalling in excess of £300m was prevented or detected during April 2016 to March 2018. This was a record for the NFI in any reporting period since its creation in 1996, and brings the cumulative outcomes across the country to around £1.69 billion.
- 5.13. The Internal Audit team undertakes the key coordination role in relation to NFI ensuring that data sets are correctly extracted and uploaded within timescales, releasing matches to the appropriate services for investigation and monitoring progress to ensure that investigations are undertaken and the outcomes reported to Cabinet Office within the 2-year timescale for completion.
- 5.14. For the 2016/17 NFI exercise, Cheshire East Council received 100 reports with a total of approximately 9,700 matches across the various types of datasets. Officers within the relevant services targeted and reviewed over 3000 matches, identifying outcomes totalling approximately £9,000. These outcomes are made up of recovered amounts and savings resulting from stopping a discount or service that the individual is not entitled to.
- 5.15. Results from the latest exercise were released to the Council in early 2019 with the Council receiving 83 reports containing approximately 9,200 matches.
- 5.16. Work to investigate the matches is continuing and currently over 2000 matches have been reviewed, with outcomes of approximately £11,000 identified.
- 5.17. In addition to the main exercise detailed above, Cheshire East Council also participates in the NFI Flexible Matching Service (FMS) which takes place every December. This exercise matches electoral roll data to council tax records to identify false claims for Single Person Discount and the results are subject to review by the council tax team.
- 5.18. Effective policies and procedures are essential to ensure that all officers and members are aware of their roles and responsibilities in identifying and managing the risk of fraud.
- 5.19. The Council has an Anti-Fraud & Corruption Policy which provides a framework for preventing and tackling fraudulent and corrupt acts against the Council. It establishes the Council's zero tolerance attitude to fraud and sets out the roles and responsibilities of officers and members. The policy will be reviewed against CIPFA's "Code of Practice for Managing the Risk of Fraud and Corruption" as part of developing the Council's Counter Fraud Strategy and resource.

- 5.20. The Internal Audit team maintain a Fraud and Bribery Risk Assessment which is produced in conjunction with service managers and details operational level risks along with the mitigating controls that are in place.
- 5.21. This allows managers the opportunity to focus on how fraud could impact upon their service areas thus raising awareness of the issue across the Council. It also enables targeted pieces of pro-active audit work to test the controls in place to prevent and detect fraud and provide assurance as to the effectiveness of these controls.

Whistleblowing

- 5.22. The Council also has well established whistleblowing arrangements which provide officers, members and others with a confidential reporting process should they have any concerns around wrongdoing.
- 5.23. The current policy is based upon the Protect (formally Public Concern at Work) model policy and was approved by Audit and Governance Committee in March 2018. The policy is subject to regular review against best practice and operational learning.
- 5.24. No changes are proposed to the policy at this time following the most recent review of arrangements. The Council's policy still reflects Protect's model policy and there have been no issues arising which would require any amendment.
- 5.25. Information relating to referrals received during 2018/19 was reported to the Committee in July 2019 as part of the Monitoring Officer's Annual Report.

Recent Counter Fraud Activity

- 5.26. During 2018/19 Internal Audit undertook 5 investigations into allegations of fraud against the Council and has continued to liaise with the police in support of these matters during the current financial year. Counter Fraud activity is reported to the Committee as part of the regular Internal Audit plan progress updates.
- 5.27. Four of those prosecutions have concluded during the year with the following outcomes:
- 5.27.1. A former finance officer at a primary school pleaded guilty to fraud by abuse of position and was sentenced to a 12-month sentence suspended for two years, 200 hours unpaid work and a 3 month curfew. The losses identified during the Internal Audit investigation totalled approximately £8,100.

- 5.27.2. A former senior support worker pleaded guilty to fraud by false representation and was sentenced to 100 hours unpaid work. The losses identified during the Internal Audit investigation totalled approximately £16,000.
- 5.27.3. A decision was taken by the CPS not to prosecute a third former officer for fraud by false representation. The losses identified during the Internal Audit investigation totalled approximately £12,150.
- 5.27.4. A total of £8,601.22 has been recovered as a result of the actions taken.

Ongoing Work and Future Developments

- 5.28. It has previously been reported to Audit and Governance Committee via Internal Audit update reports that there is an intention to develop a dedicated counter fraud and investigative resource as part of a wider restructure of the Internal Audit team.
- 5.29. This process is ongoing and once completed will ensure that the Council is sufficiently resourced to ensure it maintains a robust defence against fraud and corruption without impacting upon existing Internal Audit staff.
- 5.30. Establishment of a counter fraud function will provide Cheshire East with the opportunity to further develop the Council's Counter Fraud Culture and ensure compliance with the Code of Practice on Managing the Risk of Fraud and Corruption.
- 5.31. Key to this will be the production of a Counter Fraud Strategy that will continue to develop and drive the arrangements in place to prevent, detect and take action against fraudulent activity targeted at Cheshire East Council.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. Section 151 of the Local Government Act 1972 requires Councils to make arrangements for the proper administration of their financial affairs. The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local government entities have a statutory duty to make arrangements for the proper administration of their financial affairs and appoint an officer to have responsibility for the administration of these arrangements (Section 151 officer).

6.2. Finance Implications

6.2.1. An overriding responsibility of the Council is the provision of effective and efficient services in a manner that seeks to ensure the best possible protection of the public purse in its delivery arrangements. Hence the Council must have appropriate policies and mechanisms to safeguard the Council's resources and reduce losses to fraud and corruption in all areas to an absolute minimum.

6.2.2. The development of the Council's counter fraud resource will be managed within the Council's MTFS process.

6.3. Policy Implications

6.3.1. The Council's Anti Fraud and Corruption Policy will be subject to regular review to ensure that it continues to be fit for purpose. The outcome of such reviews will be reported to Audit and Governance Committee.

6.4. Equality Implications

6.4.1. There are no equality implications identified.

6.5. Human Resources Implications

6.5.1. Additional resources will be required to enable the establishment of a counter fraud function. This will be considered as part of a wider restructure in accordance with established HR Procedures.

6.6. Risk Management Implications

6.6.1. The Council as a large organisation is at risk of loss due to fraud and corruption both from within and outside the Council. The impact of fraud against the Council can have consequences that are serious and often far reaching. Whilst financial loss is the obvious key risk, the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself. In order to mitigate this risk the Council needs to be explicit about the way fraud will be regarded and managed.

6.6.2. As such the following fraud and corruption risk is recorded on the Corporate Risk Register "CR6 - Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption, particularly in a time of financial pressure, such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact

on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.

6.7. Rural Communities Implications

6.7.1. There are no direct implications for rural communities.

6.8. Implications for Children & Young People/Cared for Children

6.8.1. There are no direct implications for children and young people/cared for children.

6.9. Public Health Implications

6.9.1. There are no direct implications for public health.

6.10. Climate Change Implications

6.10.1. There are no direct implications for climate change.

7. Ward Members Affected

7.1. All Ward Members as losses to fraud could impact on the whole Council.

8. Access to Information

8.1. Any requests for additional information relating to this report and general counter fraud matters should be directed to Michael Todd, Acting Internal Audit Manager.

9. Contact Information

9.1. Any questions relating to this report should be directed to the following officer:

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