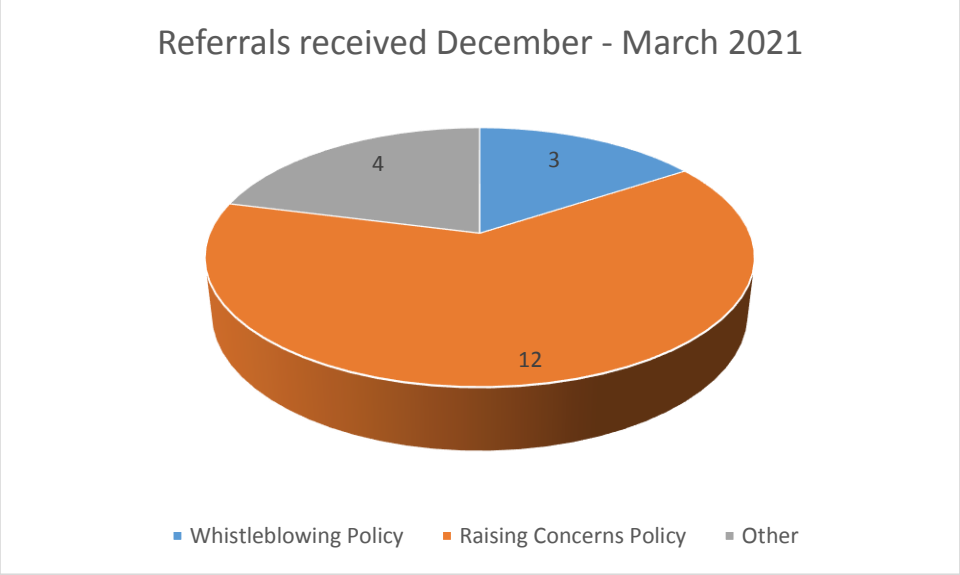
Appendix 1 Counter Fraud Update Report

Background

1. Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. The CIPFA 2018 Guidance on Audit Committees sets out the role of the audit committee regarding 'countering fraud and corruption'. In summary, the committee should understand the level of fraud risk to which the authority is exposed, and the implications for the wider control environment. This can be undertaken by having oversight of counter fraud plans, resources and their effectiveness. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.
2. This report is the first individual report designed to help meet this duty. Previously the counter fraud update was included in the Internal Audit update report. This report is designed to give assurances to committee members surrounding the counter fraud activities undertaken during the period December 2020 – March 2021 as part of the counter fraud and corruption assurance block within the Internal Audit Plan. This includes both the reactive and proactive approaches to the Council's zero tolerance to fraud and corruption.
3. Within the audit plan time is set aside to undertake investigations, or reactive work, to look into identified instances of fraud or theft, and to investigate concerns raised by staff or members of the public. In order to help to ensure controls are in place to prevent fraud from occurring, we also undertake targeted proactive reviews. These are developed from our understanding of the control environment, in addition to our awareness of new and emerging fraud risks.
4. The Public Sector Internal Audit Standards (PSIAS) set out that the primary responsibility for the prevention and detection of fraud lies with management. Auditors should have sufficient knowledge to recognise the indicators of possible fraud. This is addressed by having experienced auditors with a variety of qualifications, continuing professional development and attendance at targeted counter fraud training. We can never be complacent, as fraud risks continually evolve. We therefore regularly enhance and develop our counter fraud capability by reviewing the tools and techniques that we use to detect and prevent fraud from occurring in the first place.

Reactive Anti-Fraud Work

5. Internal Audit are the corporate owners of the Councils' counter fraud policies. Included in this suite of polices are the Whistleblowing and Raising Concerns Policies. These policies provide channels for members of staff and the public to raise their concerns about wrongdoing. These channels include the provision of a dedicated inbox, telephone line, by post, and a 'do it online' form for members of staff.
6. The following graph summarises the number of referrals received by Internal Audit in the period by referral route.



7. The referrals received through the 'other route' relate to those shared by external agencies, for example the National Anti Fraud Network, or other council services seeking advice or assistance.

Open Investigations

8. As at the 31st March 2021, 22 referrals were being investigated. Investigations are undertaken by either Internal Audit, Human Resources, staff within Directorates or a combination of these. In all cases Internal Audit undertake a risk assessment upon receipt of the referral and determine the most appropriate investigative route. The graph below illustrates the investigator for the open referrals and the following table shows these by directorate and fraud type.

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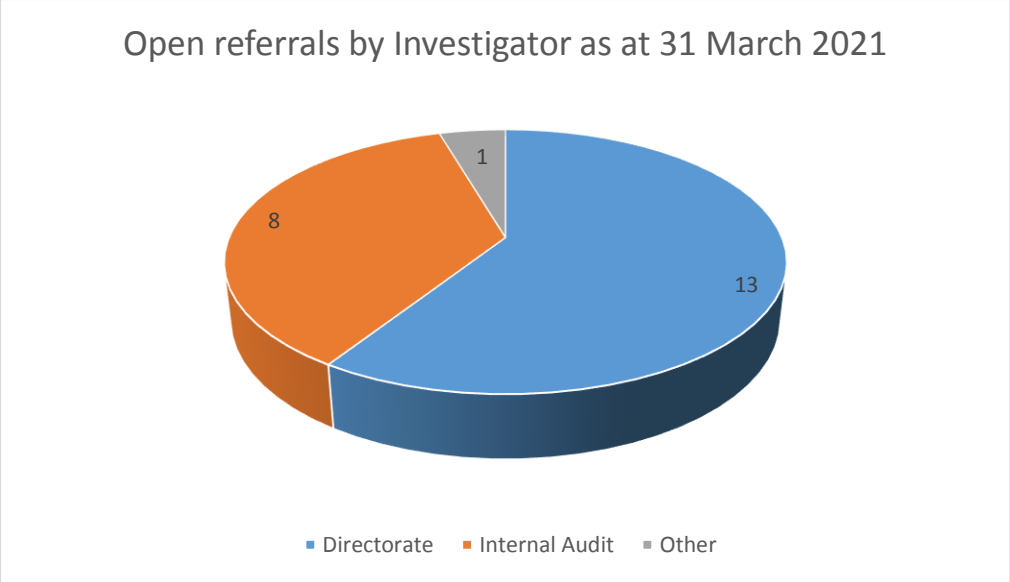
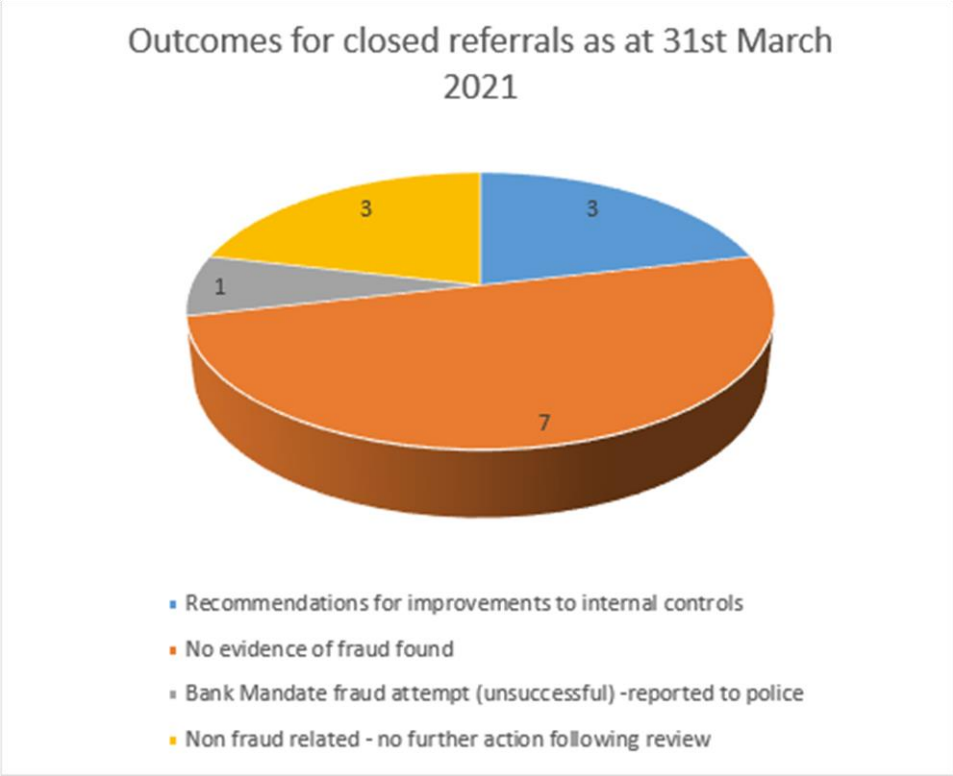


	Directorate					
	Communities & Environment	Resources & Housing	Childrens & Families	Adults & Health	City Development	Total
Open Referrals by fraud type						
Payroll fraud - not working hours	0	1	0	0	0	1
Procurement fraud	0	0	1	0	0	1
Covid grant fraud	0	4	0	0	0	4
Housing tenancy - RTB	0	1	0	0	0	1
Housing tenancy - abandonment	0	1	0	0	0	1
Housing tenancy - sub letting	0	1	0	0	0	1
Other fraud - corruption and maladministration	0	0	1	0	0	1
Non-fraud	1	2	2	2	0	7
Theft	3	1	1	0	0	5
Total	**4**	**11**	**5**	**2**	**0**	**22**

Closed Investigations

9. A total of 14 referrals were closed during the period. The outcomes are shown on the graph below.



Proactive Anti-Fraud Work

10. To help ensure that there is an effective counter fraud culture in place within the council, we have included time in the counter fraud block of the Internal Audit Plan to undertake proactive fraud reviews. These reviews consider areas identified through various methods, including the use of best practice publications and our internal risk assessments.

National Fraud Initiative (NFI)

11. The NFI is an exercise conducted by the Cabinet Office every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud and error. The work for the 2018/19 exercise has concluded and the outcomes were reported to the Committee previously.
12. Data for the current exercise was submitted in accordance with the prescribed timetable, and results were received for investigation in January. Relevant teams within the Council (for example, Internal Audit, Benefits, Housing and Tenancy Fraud) have been working through the matches on a risk basis.

13. Internal audit has overall responsibility for monitoring the progress of this exercise and ensuring that the NFI system is updated. 15,131 matches were received and 10,025 have been reviewed and closed. Two errors have been identified resulting in the recovery of £1,826[1].

Covid 19 Business Grants

14. We have continued to undertake post payment assurance on the Covid business grants. This work is being undertaken in accordance with government requirements. Various data streams are being used to inform our post payment testing. This includes information from a number of different sources comprising NFI bank account and company status validation checks, data provided through the Government's 'Spotlight' system, and data on grant payments identified as higher risk through our analysis. We are investigating those businesses deemed to be higher risk and we are liaising with colleagues, partners and relevant external bodies where the legitimacy of grant payments is unclear.
15. To date our work with the Business Rates Team has recovered payments from two fraudulent applicants. These were cases of business impersonation. A further four are going through recovery procedures, and one is with the Crown Prosecution Service for a charging decision. As these grants are provided to the council to distribute to businesses, any recovery of funds will be required to be paid back to government.

IT proactive review

16. FMS Leeds is the Councils financial management system and due to the highly sensitive information within the system, access is restricted and each individual user has a unique login and password. A council wide review has been undertaken to identify where the network has been accessed using one payroll number, and during this access a FMS Leeds account has been logged into using the FMS ID of another officer. Ongoing dialogue with the directorates is continuing to identify the reasons for these mismatches and relevant action is being taken, including reissuing the password protocol. We have reported our findings to the Core Business Transformation Team for consideration in the implementation of the new system.

Awareness Raising

17. Included in our counter fraud arrangements are the regular communications to staff of current fraud risks and the signposting of where to report any concerns. During March we raised awareness of bank mandate fraud risk to staff via Insite. The council, in line with other organisations, continues to receive fraudulent requests for changes to bank details and false payment requests. Regular reminders of this risk should help to ensure that staff remain aware of the procedures to follow, so that fraudulent payments are prevented.
18. We are currently developing a counter fraud training package for inclusion on the Performance and Learning System. This will include information on the key fraud

[1] One related to a VAT overpayment and the second related to a council tax reduction overpayment.

risks to the authority, indicators of fraud, signposting to the counter fraud policies, and how to raise any concerns.

Self Assessment of Counter Fraud Arrangements and Strategy development

19. We have undertaken a self assessment of our arrangements against the CIPFA Counter Fraud Assessment Tool. The key areas of this assessment consider how as a council we:
    - Acknowledge responsibility
    - Identify risks
    - Develop a strategy
    - Provide resources
    - Take Action
20. The output from this was that the Council has reached a good level of performance against the code and has put in place effective arrangements in many aspects and is taking positive action to manage fraud risks and actively working to improve its resilience. This identified that there are further opportunities to strengthen our approach through the development of a Counter Fraud Strategy.
21. A Counter Fraud and Corruption Strategy has been drafted for discussion with CGAC members later in the year. This will comprehensively address the Councils reactive and proactive approach to tackling the risk of fraud and corruption and be aligned to the aims, objectives and values of the Council.

Regulation of Investigatory Powers Act 2000

22. In the most recent inspection report issued by the Office of Surveillance Commissioners, it was recommended that Members should receive regular reports about the use of the Council's surveillance powers under RIPA.
23. The Head of Service (Legal) has confirmed that there have been no applications for directed surveillance or covert human intelligence source (CHIS) authorisations since the previous update was provided in February 2020. In addition, there has been no use of the powers to obtain communications data over the same period.