Hambleton District Council

Report To:	Audit, Governance and Standards Committee
Date:	5 October 2021
From:	Interim Director of Finance (s151 officer)
Subject:	**Counter Fraud Framework Update**
Portfolio Holder:	Governance Mrs I Sanderson
Wards Affected:	All Wards

1.0   Purpose

1.1   The purpose of the report is present a review of the Council's counter fraud framework, update the counter fraud strategy action plan, and present a revised fraud risk assessment.

2.0   Background

2.1   Veritau deliver a corporate counter fraud service to the Council which aims to address all areas of fraud that it might experience. The counter fraud team undertake proactive work to prevent and detect fraud such as raising awareness and providing training to members of staff. The team responds to concerns of fraud raised internally, by the public, from outside agencies, and through data matching exercises. The team is responsible for making sure the Council's response to fraud remains robust. This includes maintenance of the counter fraud framework to ensure processes are in place to prevent, detect and deter fraud. The framework is reviewed annually. A summary of the latest review is included in Annex 1. This includes updates to the fraud risk assessment and counter fraud strategy action plan.

3.0   Link to Council Priorities

3.1   The work of the counter fraud team supports the overall aims and priorities of the Council by helping to minimise losses through fraud and error.

4.0   Risk Assessment

4.1   There are no risks associated with this report.

5.0   Financial Implications

5.1   There are no direct financial implications due to the report.

6.0   Legal Implications

6.1   There are no legal implications associated with the recommendations in the report.

7.0   Equalities and Diversity Issues

7.1   There are no equalities or diversity issues associated with the report.

8.0   Recommendations

8.1   Members are asked to note the Council's updated counter fraud framework with associated action plan and note the updated Counter Fraud Risk Assessment.

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Background papers: None

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COUNTER FRAUD FRAMEWORK REPORT

5 October 2021

ANNEX 1

Corporate Fraud Manager: Daniel Clubb

Head of Internal Audit: Max Thomas

📖 INTRODUCTION

1   Fraud is a significant risk to the UK public sector. Losses to local government due to fraud results in less funding being available to deliver services. The latest annual fraud indicator estimates that the cost of fraud against local authorities is as much as £7.8 billion annually.[1] An estimated 40% of all crime committed in the UK is categorised as fraud.[2]

2   To effectively combat fraud the Council needs to have a counter fraud framework that helps it prevent, detect and deter fraud. And counter fraud work needs to continuously develop to address the ongoing emergence of new techniques being developed by fraudsters.

🌐 NATIONAL PICTURE

3   Local authorities have been responsible for the administration of a number of schemes designed to support businesses and the public during the pandemic. No reports into the level of loss found in local authority administered schemes have been published, but the Department for Business, Economy and Industrial Strategy (BEIS) conclude that as councils deal with fraud on a day to day basis that they will have been more equipped to deal with fraud arising from these schemes.[3]

4   The Covid-19 pandemic has created additional opportunities for fraudsters to attack public sector organisations, private businesses, and members of the public. In March 2021, the National Audit Office (NAO) reported a significant rise in the risk fraud and error due Covid-19.[4]

5   The government has acknowledged the speed with which fraudsters adapt to exploit organisations' weaknesses. To better tackle the evolving threat, an improved national fraud and cybercrime reporting system will be introduced to replace Action Fraud.[5] Cooperation and intelligence sharing between national and local agencies will help combat fraud.

6   Cybercrime remains a significant risk to all organisations, public and private. High profile attacks across the UK and worldwide have continued throughout the pandemic, and cybercriminals have shown disregard for the effects of their actions. An attack in the United States in May 2021 stemmed from a single compromised password and account, and resulted in the company involved paying a ransom of over £3 million. This highlights the need for staff and Members to be cybersecurity aware.

7   Supply chain attacks have also become prevalent in the last 12 months. These attacks occur when a software or IT supplier is targeted and criminals use the knowledge they gain to attack the end users of the company's software. Several high profile attacks in 2020 resulted in government departments in the United States, the UK, and Europe being

[1] Annual Fraud Indicator 2017, Crowe Clark Whitehill
[2] Public Accounts Committee Report – Fraud and Error, June 2021, HM Government
[3] Public Accounts Committee Report – Fraud and Error, June 2021, HM Government
[4] Economic Crime Plan 2019-22 HM Government
[5] Beating Crime Plan 2021

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affected. This included unauthorised access to email accounts and confidential documents, leading to data breaches. It's essential that oversight of organisational ICT infrastructure is maintained to ensure controls remain up to date and able to reduce the impact of emerging threats.

LOCAL PICTURE

8   The Council has been responsible for administering over £50.5 million of support payments to business and residents during the Covid-19 pandemic. Robust application processes and verification checks were established to minimise the impact of fraudulent attempts to claim funds. Veritau has supported the Council through investigation of suspected fraudulent claims. A working group of Council officers receives support from Veritau to review and investigate cases of potential fraud. This work continues in 2021/22.

9   Raising fraud awareness with staff is key to identifying and tackling fraud. Veritau continues to engage staff and investigate reported allegations of fraud. This year activity includes training being delivered to staff about the Council's whistleblowing policy, and messages to all about cybersecurity awareness.

COUNTER FRAUD FRAMEWORK

10   The Council has a robust counter fraud framework which includes a counter fraud strategy and associated action plan, a counter fraud policy, a fraud risk assessment, and a number of related policies (e.g. whistleblowing). A review of the framework is conducted annually.

11   A new counter fraud and corruption strategy was adopted last year. The strategy sets out the Council's aims for counter fraud work between 2020 and 2023. The strategy also includes actions needed to maintain and develop counter fraud arrangements at the Council. The associated strategy action plan is reviewed and updated annually. This year's update is contained in appendix A. It details progress made against last year's plan and introduces new priorities for the counter fraud team in 2021/22. New objectives this year include:

- Continuing the good practice developed during Covid-19 grant administration to share intelligence that supports fraud prevention.

- Working with the Council's communications team to develop a plan to deliver counter fraud and corruption news regularly to Council staff.

12   A new counter fraud and corruption policy was adopted last year. No updates are currently required.

FRAUD RISK ASSESSMENT

13   It is recognised good practice for councils to assess their risk of fraud on a regular basis. An updated fraud risk assessment is contained in appendix B.

14   Covid-19 related fraud has been downgraded as a result of the high value payments seen in 2020/21 coming to an end. New cases of grant fraud may be identified through the National Fraud Initiative which includes cross boundary data matches which have not been previously available to local authorities. The Council is responsible for attempting to recover incorrectly paid grants.

15   Theft of assets has also been downgraded from a high risk to a medium risk. This is a result of the easing of Covid-19 related restrictions and increased staff presence at Council premises.

16   The risk assessment highlights areas of work to be undertaken by the internal audit and counter fraud teams (e.g. fraud awareness training) in addition to actions included in the counter fraud and corruption strategy action plan.

APPENDIX A: COUNTER FRAUD STRATEGY ACTION PLAN

Veritau have responsibility for maintaining, reviewing, and strengthening counter fraud arrangements at the Council. This includes an annual review of the Council's counter fraud policy framework.

We also introduced a number of other actions which will continue going forward, including:

- A rolling programme of fraud awareness training for officers based on priorities identified through the fraud risk assessment and any emerging issues
- Regular reporting of counter fraud activity to the Governance Committee.

New one off and developmental activity:

Ref	Action Required	Target Date	Responsibility	Notes
1	Develop communication strategy to publicise counter fraud and corruption news internally.	March 2022	Veritau / Communications Team	Liaise with the communications team to ensure that members of staff are regularly kept informed of counter fraud news and developments.
2	Participate in Fighting Fraud and Corruption Locally working groups.	September 2022	Veritau	Attend regional and national working groups and report developments to the Audit, Governance and Standards Committee.
3	Counter fraud team to be consulted to fraud proof new Council policies, strategies, and initiative.	September 2022	Veritau / service departments	New policies, strategies and initiatives discussed with the team will be reviewed to ensure suitable counter fraud measures are considered. The outcomes of these reviews will be reported to the committee.

Ref	Action Required	Target Date	Responsibility	Notes
4	Increase sharing of counter fraud intelligence to enhance fraud prevention.	March 2022	Veritau	Veritau to promote sharing of counter fraud intelligence from regional and national forums.
5	Deliver fraud awareness training to staff on the Council's whistleblowing policy.	September 2022	Veritau	Specific sessions will be aimed at managers to explain their role and responsibilities under the policy.

Completed activities:

Ref	Action Required	Responsibility	Update
1	Undertake post assurance checks on grant applicants to the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund Schemes.	Veritau / Revenues Department	Post-assurance report finalised in April 2021. A sample of Covid-19 related payments were reviewed for fraud and error. The report found that the Council had paid grants correctly and in line with Government guidance.
2	Create a new data protection impact assessment to enable further data matching at the Council.	Veritau	A data protection impact assessment template has been developed for use in future data matching activity.
3	Explore joint working arrangements with the Department for Work and Pensions and evaluate potential benefits for the Council.	Veritau	Department for Work and Pensions investigators were redeployed during the pandemic. Officers are returning to duties and relevant cases are considered for joint working.

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4	Ensure that up to date policies are in place to enable the Council to undertake covert surveillance under the Regulation of Investigatory Powers Act and employee monitoring outside of the Act.	Veritau / Legal Department	The Director of Law and Governance (Monitoring Officer) confirms that updates were made to the council's policies following an inspection by the Investigatory Commissioner's Office.
5	Establish a process for use of new powers under the Investigatory Powers Act.	Veritau / Legal Department	The Director of Law and Governance (Monitoring Officer) confirms that updates were made to the Council's policies following an inspection by the Investigatory Commissioner's Office.
6	Fraud risk to be considered in the Council's corporate risk register.	Veritau (Director of Finance and Commercial (s151 Officer)	The corporate risk register has been updated to include fraud as a risk.

Appendix B: Fraud Risk Assessment (September 2021)

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
Council Tax & Business Rates Frauds (discounts and exemptions)	Council Tax fraud is a common occurrence. CIPFA report that 66% of all local government related fraud, recorded as part of their annual survey, involved Council Tax or Business Rates payments. Single Person Discount fraud accounted for £28.9m of loss due to fraud in 2019/20 according to the survey. Depending on the scheme, there are several ways in which fraud can occur. These include applicants providing false information and recipients failing to notify the Council when they no longer qualify. Revenue from Council Tax and Business Rates is a key income stream. Fraud in this area threatens this source of funding.	The Council employs a number of methods to help ensure only valid applications are accepted. This includes requiring relevant information on application forms, visits to properties (where necessary) and an annual canvass requiring businesses to confirm that they continue to be entitled to a discount or exemption. Collection rates are compared against targets as a potential indicator of fraud. Controls including separation of duties between collection and administration, restriction of access to records and management oversight of action such as recovery suppressions help prevent internal fraud and error. Messages reminding residents and businesses to update their circumstances when necessary appear on annual bills issued by the Council. The Council routinely takes part in the National Fraud Initiative.	High	The counter fraud team delivers periodic fraud awareness training with staff in revenues, and customer services about frauds affecting Council Tax and Business Rates. A revenues and benefits audit is planned to take place in 2021/22.
Council Tax Support Fraud	Council Tax Support is a council funded reduction in liability introduced in 2013 to replace Council	The Council undertakes eligibility checks on those who apply for support. There are established lines of	High	The counter fraud team routinely raises awareness of fraud with staff processing

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	Tax Benefit. Unlike its predecessor, it is resourced entirely through Council funds. CIPFA's latest national fraud tracker showed the estimated total value of Council Tax Support fraud is £4.9m. Frauds in this area can involve applicants failing to declare their total assets, correct household composition or household income. Those receiving support are also required to notify relevant authorities when they have a change in circumstances that may affect their entitlement to support. The Department for Work and Pensions have reported an increase in fraud within the Universal Credit system during 2020/21 as a result of Covid-19. As Council Tax Support claims are linked to Universal Credit claims there is likely to be an associated increase in fraud against the Council. Fraudulently obtained Council Tax Support represents a loss of Council funds.	communication with the Department for Work and Pensions where claims for support are linked to externally funded benefits. The Council is able to report Housing Benefit and other benefit frauds to the Department for Work and Pensions but this does not necessarily allow the Council control over resolving false claims for Council Tax Support.		claims for Council Tax Support. Concerns of fraud are reported to the counter fraud team who determine if criminal investigation is required. The counter fraud team can undertake joint working with the Department for Work and Pensions where it is mutually beneficial (e.g. joint claims for benefit). A revenues and benefits audit is planned to take place in 2021/22.
Creditor Fraud	A range of frauds can be committed against the Council as a result of	The Council has a number of controls in place to identify fraudulent	High	The counter fraud team undertakes work to raise staff

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	publically available creditor payment data. Criminals undertaking these types of fraud are often found to be operating from overseas. The most common issue is mandate fraud where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in bank details. 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. With increased remote working due to Covid-19, there have been increased opportunities for fraudsters to impersonate budget holders or suppliers in electronic communications to divert funds.	attempts to divert payments from genuine suppliers and to validate any requests to change supplier details. This includes contacting companies to confirm that any requested change of bank account details for payments is genuine. A Creditors audit in 2020/21 resulted in a reasonable assurance opinion. Suitable controls were in place regarding payments and changes to payee details.		awareness of these types of frauds. Increased awareness provides greater chances of stopping fraudulent attempts before losses occur. Awareness sessions with finance staff have been booked for November 2021. All instances of whaling fraud reported to counter fraud team will be reported to the relevant agencies, such as the National Cyber Security Centre, as well as directly to the email service provider hosting the account where the false emails originated from. A Creditors audit is planned for 2021/22.
Cybercrime	Cybercrime is a constantly evolving area where criminals are continually refining their techniques in order to overcome controls put in place to protect organisations, to obtain unauthorised access and information, and to frustrate systems. Types of cybercrime experienced by	The Council has a highly skilled ICT department which helps mitigate the threat of cybercrime. In the event of a ransomware attack it is important that the Council is able to recover a backup of their systems.	High	Raising awareness with staff can be crucial in helping to prevent successful cyberattacks. Any counter fraud training delivered will reinforce cybersecurity messages to members of staff. ICT governance and cybersecurity feature on the 2021/22 internal audit plan.

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	local authorities in recent years include ransomware, phishing, whaling, hacking, and denial of service attacks. Attacks can lead to loss of funds, systems access and data, impacting service delivery. There have been a number of high profile cyberattacks on public and private sector organisations in the last 12 months. Attacks stemming from the hacking of software or IT service providers have become more prevalent. These are known as supply chain attacks and are used by hackers to target the clients of these types of companies.			An awareness campaign is planned for cybersecurity awareness month in October.
Procurement Fraud	Procurement fraud has been perceived as a high risk by local authorities in the CIPFA fraud tracker for a number of years. Procurement fraud, by its 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. CIPFA reported losses of £1.5m in	The Council has established Contract Procedure Rules. The rules are reviewed regularly and ensure the requirement for a competitive process (where required) through an e-tender system. A team of procurement professionals provide guidance and advice to ensure that procurement processes are carried out correctly. A tendering and evaluation framework is in operation to help prevent fraud. It also sets out the requirements for declarations of interest to be made.	High	Continued vigilance by relevant staff is key to identifying and tackling procurement fraud. The counter fraud team will continue to provide training to raise awareness of fraud risks in this area. The counter fraud team and internal audit will monitor guidance on fraud detection issued by the Competition and Markets Authority and other relevant bodies.

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	2019/20 for local authorities, due to procurement fraud. It found that 8% of fraud detected in this area involved 'insider fraud'. The Ministry of Housing, Communities and Local Government (MHCLG) published a report in June 2020 regarding the risks of procurement fraud in local government. It recommended a series of actions to identify, record and tackle procurement fraud.	Contract monitoring arrangements are in place which will help to detect and deter fraud.		Potential abuses of the supplier relief should be reported to the counter fraud team for further investigation. The Council implements a number of the actions suggested in the June 2020 Ministry of Housing, Communities and Local Government report. These, include contract monitoring, risks assessments, establishing a counter fraud and corruption culture, and having counter fraud capacity for investigation. Raising fraud awareness is also a priority for the counter fraud team. Audit work in procurement and contract management is being considered in 2021/22.
COVID-19 related fraud	Throughout the Covid-19 pandemic local authorities have been responsible for providing support to businesses and residents. The Council had to respond quickly to deliver a number of support schemes in 2020/21. New processes for verifying applications had to be implemented very quickly.	Over the course of 2020/21 the Council developed robust processes to identify fraudulent applications for support. This included use of national data matching resources. A working group comprising council officers and Veritau have met to review ongoing fraud cases and	Medium	Any instances of fraud are investigated by the counter fraud team. Where payments were found to have been fraudulently or incorrectly made a recovery process was instigated. Veritau conducted a post-event assurance exercise at the end of

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	These schemes have been subject to attempted fraud at a local, national and international level due to the significant amount of funding available. While funding was provided by central government, the Council was charged with the responsibility of identifying genuine applicants and investigating and recovering incorrect payments.	review government guidance on assurance requirements. The counter fraud team shared details of all known frauds occurring regionally and nationally. Government mandated post-assurance activities have been undertaken to review the success of controls in place.		2020/21 which reviewed payments to businesses made during the first lockdown period. The exercise concluded that the vast majority of payments sampled had been made correctly and in line with government guidance. The counter fraud team still has a number of investigations ongoing and the results of a National Fraud Initiative data matching exercise are being reviewed.
Internal Fraud	There are a range of potential employee frauds including falsifying timesheets and expense claims, abusing flexitime or annual leave systems, undertaking alternative work while sick, or working for a third party on Council time. Some staff have access to equipment and material that may be misused for private purposes. With increased staff working remotely, working hours and associated claims may be more difficult to monitor. It is essential	The Council has an established whistleblowing policy which is periodically reviewed. Controls are in place surrounding flexitime, annual leave and sickness absence. Participation in the National Fraud Initiative helps the Council identify potential cases of internal fraud.	Medium	Training sessions on the Council's whistleblowing policy are being delivered to staff in 2021/22. This includes specific advice on the role and responsibilities of managers. The counter fraud team can investigate any suspicions of corruption while internal audit ensure that appropriate checks and balances are in place to help prevent it.

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Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
	that these issues are tackled as they can cause reputational damage and affect staff morale and performance. Payroll related fraud can involve the setting up of 'ghost' employees in order to divert salary payments to others. Corruption and bribery is a significant risk to all public sector organisations, however, only low levels have ever been detected.			
Recruitment Fraud	Recruitment fraud can affect all organisations. Applicants can provide false or misleading information in order to gain employment such as bogus employment history and qualifications or providing false identification documents to demonstrate the right to work in the UK.	The Council has controls in place to mitigate the risk of fraud in this area.	Medium	Where there is a suspicion that someone has provided false information to gain employment, the counter fraud team will be consulted on possible criminal action in tandem with any disciplinary action that may be taken.
Theft of Assets	The theft of assets can cause financial loss and reputational damage. It can also negatively impact on employee morale and disrupt the delivery of services. The Council owns large numbers of physical items, such as IT equipment, vehicles and tools.	Specific registers of physical assets (e.g. capital items, property and ICT equipment) are maintained. The Council's whistleblowing arrangements provide an outlet for reporting concerns of theft.	Medium	Members of staff should also be vigilant and report all possible thefts promptly to the Police and counter fraud team.

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
	The reduction of staff at Council premises during the Covid-19 outbreak increased the risk of theft. This risk has started to reduce as restrictions lift and staff return to the office.			
Fraudulent Insurance Claims	The Council may receive exaggerated or fabricated insurance claims. CIPFA's 2019/20 report estimated that insurance fraud cost local government £3.9m.	While insurance fraud is common, the burden of risk is currently shouldered by the Council's insurers who have established fraud investigation systems.	Low	n/a