

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 19 JUNE 2018**

**CORPORATE COUNTER FRAUD REVIEW 2017/18**

**REPORT BY MARGO WILLIAMSON, CHIEF EXECUTIVE**

**ABSTRACT**

This report summarises the activity undertaken by the Corporate Fraud Team (CFT) in the year to 31 March 2018.

**1. RECOMMENDATION**

It is recommended that the Scrutiny and Audit Committee:-

- (i) review and scrutinise the contents of this report
- (ii) note the results of the self-assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, attached as Appendix 1
- (iii) agree that the self-assessment confirms that the council has adopted a response that is appropriate for its fraud and corruption risks

**2. ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN/CORPORATE PLAN**

This report supports the council's zero tolerance approach to fraud and corruption, which in turn supports services in the delivery of corporate priorities set out in the Local Outcomes Improvement Plan and the Corporate Plan.

**3. BACKGROUND**

The CFT is a specialist investigative team which operated in 2017/18 within the Governance & Consultancy Service reporting to the Chief Executive. The team consists of 2.3 full time equivalent members of staff.

Effective standards for countering fraud and corruption support good governance within the Council. The Cipfa Code of Practice on Managing the Risk of Fraud and Corruption sets out the five key principles that define the governance and operational arrangements necessary for an effective counter fraud response. These are:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption

The continued work of the CFT plays a key role in the council's response to the risk of fraud and corruption.

**4. 2017/18 OVERVIEW**

**4.1 Self-assessment against the Cipfa Code of Practice**

The CFT's self-assessment against the Cipfa Code of practice is attached at Appendix 1. Members are asked to review the self-assessment and to agree that it confirms that the council has adopted a response that is appropriate for its fraud and corruption risks

#### 4.2 Counter Fraud Policies / Procedures

Angus Council is committed to minimising the risk of loss due to fraud or corruption and to taking appropriate action against those who attempt to defraud the Council.

In order to demonstrate this commitment it was necessary to develop a framework to be implemented on receipt of any allegations of employee fraud.

The 'Employee Fraud Investigation Framework' was developed in collaboration with Human Resources (HR) and clarifies the roles and responsibilities of CFT and HR staff; ensures that a consistent approach is taken in every case; and ensures that cases are progressed timeously. This framework has now been implemented.

#### 4.3 Corporate Fraud Investigations

Fraud and corruption are ever present risks to all organisations and can have a negative impact through disruption to services or undermining the achievement of objectives.

Angus Council acknowledges its responsibility for ensuring that the risks associated with fraud are managed effectively. All allegations of fraud and corruption are investigated by CFT staff, in partnership with other council colleagues where appropriate.

Allegations are investigated in accordance with the Council's Fraud Response Plan and Counter-Fraud Strategy. The findings of the investigations are reported to management to allow appropriate action be taken to improve internal controls. These reports and responses from management are sent to the Section 95 Officer and the Monitoring Officer, where appropriate.

During 2017/18, corporate fraud investigations included allegations of improper conduct between an employee and a contractor, missing monies from council premises and misuse of the flexi system. Four investigations resulted in the recommendation of internal disciplinary proceedings.

CFT staff also investigated 3 allegations of missing monies at a partner organisation.

In addition to the investigative work carried out during 2017/18, the CFT has provided a diverse range of advice and guidance to a number of services including Children and Learning, Housing and the Criminal Justice Service.

#### 4.4 Council Tax

Council Tax is an area where the Council is exposed to loss. This is largely where false information is provided to obtain reductions and / or discounts and exemptions. The Audit Commission estimated that 4 – 6% of all Single Person Discount claims are fraudulent.

The CFT use data matching techniques in order to identify Council Tax fraud and incorrectness and also to improve the integrity of the Council's records.

In 2017/18, data matching initiatives have resulted in the removal of discounts amounting to £94,448.

In addition to data matching the CFT continues to examine any allegations of Council Tax fraud. The CFT works in collaboration with colleagues in Revenues, and with their continued professional support have identified Council Tax savings of £16,914.

#### 4.5 Benefit Fraud

Although the responsibility for the investigation of Housing Benefit fraud transferred to the Department for Work and Pensions (DWP) in 2015, the CFT continue to identify benefit overpayments. These overpayments, which are recoverable, have arisen from the investigation of other case types such as tenancy fraud and Council Tax allegations and also from referrals received from the Housing Benefit Matching Service. The overpaid benefits identified during the year to 31 March 2018 amounts to £41,707.

The CFT also assist DWP Counter Fraud and Compliance Directorate with benefit investigations through the sharing of intelligence and during 2017/18 that work identified £79,790 of fraud and error in Housing Benefit and Council Tax.

#### 4.6 Tenancy Fraud

Tenancy fraud is now recognised as one of the most significant areas of fraud committed against local authorities. Examples of tenancy fraud include unlawful subletting, wrongful tenancy assignment and succession, failure to use a property as the principal home and use of false information in a housing application to gain a tenancy. The effective investigation of these allegations will ensure that more properties are available for those in genuine need.

In an effort to address this issue and to develop the collaborative working arrangements with housing colleagues, fraud awareness sessions were held with Community Housing Teams for Arbroath/Carnoustie and Montrose/Brechin.

A joint approach to the investigation of tenancy fraud allegations has led to the successful recovery of seven council properties.

#### 4.7 National Fraud Initiative

The National Fraud Initiative (NFI) is a biennial counter fraud initiative, led by Audit Scotland, which matches electronic data about individuals, within and between public and private sector bodies to prevent and detect fraud. Participation in the National Fraud Initiative (NFI) is an integral part of the Council's corporate approach to the prevention and detection of fraud and error.

NFI 2016 matches were received in the early part of 2017. Progress was reported to this committee in August 2017 (report 280/17 refers). Investigation work is now complete and overpayments totalling £15,715 were identified. Further detail will be reported to this committee when the national report is published by Audit Scotland later this year.

Guidance on the next NFI data matching exercise is also due to be published later this year.

### 5. **FUTURE PLANS**

As a result of the council's management review, in 2018/19 the CFT will be led by a team leader who will be responsible for the provision of a counter-fraud and investigation service. The team leader will report to the Service Leader-Internal Audit.

The CFT will continue to be proactive in developing and promoting a counter fraud culture within Angus Council and will continue to work to ensure the ongoing safeguarding of public resources.

### 6. **CONCLUSION**

The CFT has been successful in achieving the key principles to support Angus Council's goal of protecting public assets, acting in the public interest and making best use of resources to achieve intended outcomes. In addition to the financial savings the specialist investigative service provided by the Counter Fraud Team strengthens the council's governance arrangements by improving internal controls and safeguarding assets.

### 7. **FINANCIAL IMPLICATIONS**

During the financial year to 31 March 2018, the CFT identified savings in excess of £153k from investigative work and a further £79k of fraud and error in Housing Benefits and Council Tax through the sharing of intelligence with SFIS. Action is taken by Angus Council to recover these monies.

**NOTE:** No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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List of Appendices: 1: Self-assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

### Self-Assessment against CIPFA Code of Practice on Managing the Risk of Fraud & Corruption

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
A1 The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.	It is good practice for the responsibilities for managing the risk of fraud and corruption to be included in the organisation's scheme of delegation or terms of reference.	Fin Regs 1.3 Fin Regs 12.2  Counter-Fraud & Corruption Strategy and Fraud Response Plan revised 2016 – approved by EMT June 2016 and P&R August 2016 (R308/16 – also submitted to S&A)	Fin Regs updated March 2017 (R134/17). Updated March 2018 to reflect new management structure (R106/18).  New Counter-Fraud Team Leader post established as part of the council's management review.
A2 The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.	The organisation's leadership team can support a counter fraud culture by: <ul style="list-style-type: none"> <li>• Providing visible support for counter fraud and corruption activity.</li> <li>• Recognising the risk of fraud and corruption and the harm it can cause to the organisation and</li> </ul>	Fin Regs 1.3 Fin Regs 12.2  Counter-Fraud & Corruption Strategy and Fraud Response Plan revised 2016 – approved by EMT June 2016 and P&R August 2016 (R308/16 – also submitted to S&A)  Employee Code of	Fin Regs updated March 2017 (R134/17). Updated March 2018 to reflect new management structure (R106/18).

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
	<p>to those the organisation helps and/or protects</p> <ul style="list-style-type: none"> <li>• Including reference to counter fraud and corruption activities in the principles of good governance and standards of conduct adopted by the organisation</li> <li>• Ensuring the organisation is responsive to new fraud and corruption risks</li> <li>• Embedding strong counter fraud controls and systems within the organisation</li> <li>• Providing visible support and resourcing for fraud awareness activity</li> <li>• Supporting counter fraud and corruption training throughout</li> </ul>	<p>Conduct</p> <p>Corporate Counter-Fraud team within CEU</p> <p>Counter Fraud arrangements are considered as part of the annual governance statement</p>	<p>Following the management restructure, the CFT will report to the Service Leader Internal Audit.</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
	<p>the organisation</p> <ul style="list-style-type: none"> <li>Ensuring that other governance papers, strategies and policies include fraud and corruption risks wherever relevant</li> </ul>		
<p>A3 The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.</p>	<p>The governing body should ensure that there is a clear programme of work in accordance with the Code to manage the risk of fraud and corruption.</p> <p>The organisation's leadership team can also provide strong and genuine support by delegating appropriate authority to counter fraud professionals</p>	<p>Fin Regs 1.3 Fin Regs 12.2</p> <p>Remit of Scrutiny &amp; Audit committee</p> <p>Local Code of Corporate Governance includes reference to counter-fraud work.</p> <p>Annual Governance Statement</p>	<p>Strategy, Response Plan &amp; Whistleblowing Policy approved by P&amp;R August 2016</p> <p>Development of an Employee Fraud Investigation Framework</p> <p>Local Code of Corporate Governance updated in line with Delivering Good Governance 2016 and approved by S&amp;A committee in June 2017.</p> <p>The Code is updated annually and submitted to the June meeting of the Scrutiny &amp; Audit committee.</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
<p>A4 The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.</p>	<p>Could include:</p> <ul style="list-style-type: none"> <li>• Formal fraud risk management process</li> <li>• Production, maintenance and review of a fraud strategy</li> <li>• Formal fraud awareness activity</li> <li>• Clear directions on actions to be taken if fraud or corruption is discovered</li> </ul>	<p>Counter-Fraud &amp; Corruption Strategy</p> <p>Fraud Response Plan</p> <p>Counter-Fraud Team</p>	<p>Fin Regs clearly set out the council's zero tolerance approach. The Counter-Fraud strategy sets out how the council will seek to deter fraudulent activity.</p> <p>Fraud Awareness sessions with Community Housing Teams</p> <p><b>To develop fraud awareness e-learning</b></p>
<p>B1 Fraud risks are routinely considered as part of the organisation's risk management arrangements.</p>	<p>Fraud risk identification could include:</p> <ul style="list-style-type: none"> <li>• Compare identified risks with other similar organisations</li> <li>• Fraud risk workshops within departments</li> <li>• Fraud risk review conducted by internal audit, external audit or specialist consultant</li> </ul>	<p>6 monthly counter-fraud reports to S&amp;A</p> <p>Senior Managers questionnaire on Fraud Risks in July 2015</p>	<p><b>To be considered as part of risk management and included in risk registers</b></p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
B2 The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.		Fin Regs 1.3 Fin Regs 12.2  Codes of Conduct for councillors and staff  Local Code of Corporate Governance and Annual Governance Statement	
B3 The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.	The organisation can use estimates of fraud loss and any measurement exercise to quantify the potential losses that different fraud risks cause.	Work of counter-fraud team includes review of published information.  Risk assessment guides CFT actions and work is planned accordingly	Collaborative working with Internal Audit to identify fraud and minimise risks.
B4 The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.	Reputational damage to the organisation or damage to specific service objectives	The promotion of an anti fraud culture via internal publicity and partnership work.	See B1



CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
C1 The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.		Counter-Fraud & Corruption Strategy approved by P&R August 2016 (R308/16 App 1)	<b>The strategy will be reviewed during 2018</b>
C2 The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.		'Working with Partners' section within 2016 Strategy	

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
<p>C3 The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks.</p>	<p><u>Proactive</u></p> <ul style="list-style-type: none"> <li>• Develop a counter fraud culture</li> <li>• Prevent fraud through internal control measures</li> <li>• Use techniques to validate data</li> <li>• Publicise counter fraud policy and actions</li> </ul> <p><u>Responsive</u></p> <ul style="list-style-type: none"> <li>• Detecting fraud through data and intelligence analysis</li> <li>• Implement effective reporting arrangements</li> <li>• Investigate fraud referrals</li> </ul>	<p><u>Proactive</u></p> <ul style="list-style-type: none"> <li>• Online fraud reporting form from April 2016</li> <li>• Robust internal controls</li> <li>• Data matching – internal and NFI.</li> <li>• SLAIG, NAFN etc</li> </ul> <p><u>Responsive</u></p> <ul style="list-style-type: none"> <li>• Fraud response plan</li> <li>• Whistleblowing</li> <li>• Recovery of assets</li> <li>• Disciplinary/legal action</li> <li>• Specialist investigations</li> </ul>	<p>Continuous auditing developed by Internal Audit during 2017/18 and will be further developed in 2018/19.</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.	<p>The strategy should-</p> <ul style="list-style-type: none"> <li>• Allow for measurement</li> <li>• Identify the key fraud risks</li> <li>• Be considered by audit committee</li> </ul>		<b>The strategy will be reviewed during 2018</b>
D1 An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.	An annual assessment should be conducted to review whether the level of resource invested is proportionate for the level of risk.	<p>Internal Audit assessment.</p> <p>External Audit comment.</p> <p>Annual Governance Statement.</p>	<p>Assessed as part of the management restructure, when a new post of Team Leader Counter Fraud was created. Will be assessed further in stage 2 of the organisational structure review.</p> <p>In future, the CFT will report to the Service Leader internal audit and the annual internal audit plan will include an annual assessment of resource vs risk.</p> <p>6 monthly reports to S&amp;A summarise counter-fraud activity in the period and emerging risks.</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
D2 The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation	Training needs to be provided to ensure that counter fraud staff have the skills, experience and accreditation to conduct their work.	Counter-fraud team staff are appropriately qualified, skilled and experienced.	<b>Consider fraud-awareness training for front-line staff</b>
D3 The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.		Internal Audit Charter (reviewed annually and approved by S&A)	
D4 The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.		Data sharing register.  SLA with DWP	

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
<p>E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:</p> <ul style="list-style-type: none"> <li>• Counter fraud policy</li> <li>• Whistleblowing policy</li> <li>• Anti-money laundering policy</li> <li>• Anti-bribery policy</li> <li>• Anti-corruption policy</li> <li>• Gifts &amp; hospitality policy &amp; register</li> <li>• Pecuniary interest and conflicts of interest policies and register</li> <li>• Codes of conduct and ethics</li> <li>• Information Security Policy</li> </ul>		<p>Strategy &amp; Response Plan revised 2016 Policy revised 2016 Policy in place</p> <p>Policy in place Counter-fraud &amp; corruption strategy and fraud response plan Fin Regs / Code of Conduct In place for elected members &amp; staff</p> <p>In place for elected members &amp; staff Revised 2015</p>	<p><b>The strategy will be reviewed during 2018</b></p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken / required (required actions in bold)
<ul style="list-style-type: none"> <li>Cyber security policy</li> </ul> <p>The above policies are x-referenced and are available to staff from the intranet.</p>			<p>The council achieved Cyber Essentials accreditation in April 2018.</p> <p><b>IT security policy / information security policy under review</b></p>
E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.	A proactive plan can be developed to achieve early detection of fraud and corruption	Key risks are addressed thus contributing to the overall goal.	
E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.		NFI SLAIG NAFN SLACIAG	Joint Working with DWP to be re-introduced

<b>CIPFA Code of Practice</b>	<b>CIPFA Good Practice Guidance</b>	<b>Evidence</b>	<b>Action taken / required</b> (required actions in bold)
E4 Providing for independent assurance over fraud risk management, strategy and activities.		Internal Audit annual report External Audit report to Members	
E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.		Internal Audit annual report  Annual Governance Statement  6-monthly counter-fraud report to S&A committee	