

AGENDA ITEM NO 13

REPORT NO 194/19

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 18 JUNE 2019

CORPORATE COUNTER FRAUD REVIEW 2018/19

REPORT BY CATHIE WYLLIE, SERVICE LEADER (INTERNAL AUDIT)

ABSTRACT

This report summarises the activity undertaken by the Corporate Fraud Team (CFT) in the year to 31 March 2019.

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

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 2018/19 within the Internal Audit Service reporting to the Chief Executive. The team comprised 2.3 full time equivalent members of staff.

Fraud and corruption are constant risks to all organisations. Perpetrated acts can have a negative impact including disruption to services and unwelcome adverse publicity.

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

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

4. 2018/19 OVERVIEW

Team Structure / Resource

The Council's management review saw the internal appointment of a Team Leader - Counter Fraud in July 2018.

Counter Fraud Policies

Angus Council is committed to minimising the risk of loss due to fraud or corruption. During 2018/19 the Counter Fraud and Corruption Strategy, Fraud Response Plan and

Whistleblowing Policy were each reviewed and updated. These documents were incorporated in the Annual Corporate Governance Reminder issued to employees in January 2019 and state the Council's zero-tolerance stance on fraud, set out the responsibilities of officers and contribute to fraud prevention.

Corporate Fraud

Corporate Fraud includes instances where individuals seek to profit from their position as employees. Any such allegations are investigated in accordance with the Council's Employee Fraud Investigation Framework and Fraud Response Plan. The findings of the investigations are reported to management to allow appropriate action be taken including disciplinary action and improvements to internal controls. These reports are sent to the Section 95 Officer and the Monitoring Officer, where appropriate.

2018/19 saw the CFT conclude 12 corporate fraud investigations with 4 cases ongoing at 31 March 2019 (17/18 - 6 concluded cases with 1 ongoing at 31 March 2018). These investigations included those into allegations of missing monies from Council premises; theft by forgery; abuse of the flexi-time system and embezzlement of Council monies.

In addition to the investigative work carried out during 2018/19, the CFT has provided a diverse range of advice and guidance to a number of areas including Environmental Services, Housing, Legal & Democratic, Schools & Learning and Children, Families & Justice.

CFT activity in addressing employee misconduct had an additional value in its disruption of fraudulent activity which prevented future losses.

Council Tax

Council Tax is an area where the Council is exposed to loss due to fraud. This is largely where false information is provided to obtain reductions and / or discounts and exemptions or where changes in customer circumstances are not communicated to the Council.

The CFT use data matching techniques provided by their colleague partners in the Council's Information Technology service in order to identify Council Tax fraud and incorrectness. In doing this the integrity of the Council's records is improved.

In 2018/19, data matching initiatives have resulted in the removal of Council Tax discounts or exemptions amounting to £73,176.

In addition to data matching the CFT continues to examine any allegations of Council Tax fraud. The CFT works in collaboration with colleague partners in Revenues Division and with their continued professional support have identified Council Tax savings of £9,132.

Tenancy Fraud

Tenancy fraud remains a significant area of fraud committed against local authorities. Examples of tenancy fraud include wrongful tenancy succession and failure to use a property as the principal home. The CFT investigate tenancy fraud with colleague partners from Housing. Effective investigation of tenancy fraud allows for the effective management of housing stock and frees accommodation for those in genuine need.

The joint approach to the investigation of tenancy fraud allegations has led to the successful recovery of four Council properties in 2018/19. The work of the CFT in identifying tenancy fraud has financial benefits to the Council in that it can reduce costs for temporary accommodation for genuine applicants; reduce legal costs to recover a property and reduce the amount of foregone rent payable by an absent tenant.

National Fraud Initiative

The National Fraud Initiative (NFI) is a biennial counter fraud initiative, led by Audit Scotland, which matches individuals' electronic data, within and between public and private sector bodies to prevent and detect fraud. Business areas covered by the NFI include Housing, Payroll, Care Payments, Creditors and Licences.

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 matches were received in the early part of 2019 and the review and investigation of matches has commenced. A report will be submitted to this committee when investigations are complete and results are known.

Benefit Fraud

The responsibility for the investigation of Housing Benefit fraud is that of the Department for Work and Pensions (DWP) though the CFT continue to identify benefit overpayments. These recoverable amounts arise 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 2019 amounts to £26,118.

The CFT also assist DWP with benefit investigations through the sharing of intelligence and during 2018/19 that work identified £30,754 of fraud and error in Housing Benefit and Council Tax.

5. FUTURE PLANS

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.

In response to the demand for counter fraud services and supported by the Change Fund a Counter Fraud Officer was appointed on a temporary basis until 31 March 2021.

A counter fraud e-learning module is being produced with colleague partners from the Council's Organisational Development team. This course will be deployed to raise awareness of fraud risks amongst staff. The module will include reference to procurement fraud and in doing so will seek to address a weakness identified in the Angus Council Procurement and Commercial Improvement Programme (PCIP) 2019 assessment.

The CFT will continue to use digital communication channels to promote counter fraud activity and awareness.

Fraud in non-domestic rates was identified by the Chartered Institute of Public Finance & Accountancy as the largest growing fraud risk area to local authorities. Working with colleague partners from Revenues Division the CFT will participate in an NFI pilot exercise using data matching to identify and investigate fraud in non-domestic rates.

6. CONCLUSION

The CFT's main activity in 2018/19 was the investigation of allegations of corporate and employee fraud. Demand for this service was high. By investigating these allegations the CFT have managed the risk of financial and reputational loss associated with employee misconduct and strengthened the Council's governance arrangements by improving internal controls.

In revising existing counter fraud policies the Council's counter fraud framework was strengthened. Activity, including profile-raising on the Council intranet and working collaboratively with service colleagues, has been ongoing to raise awareness amongst staff of the specialist counter fraud services provided by the CFT.

The CFT will continue to work to counter fraud and ensure the ongoing safeguarding of public resources. This will play a significant role in protecting public assets.

7. FINANCIAL IMPLICATIONS

During the financial year to 31 March 2019, the CFT identified savings in excess of £108k (2017/18 £153k) from investigative work and a further £30k 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.

Additional financial benefits have accrued by the CFT's work in disrupting fraudulent activity, preventing fraud by fraud awareness action and by improving internal controls.

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 (2018/19) & required (2019/20) (required / pending actions in bold)
<p>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.</p>	<p>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.</p>	<p>Fin Regs 1.3 Fin Regs 12.2</p> <p>Counter-Fraud & Corruption Strategy and Fraud Response Plan revised 2016 – approved by EMT.</p>	<p>Team Leader Counter Fraud appointed in July 2018, post established as part of the council's management review.</p> <p>Revisions to the Counter-Fraud & Corruption Strategy and Fraud Response Plan in 2018 – commended by the S&A Committee and approved by the P&R committee, November 2018 (363/18).</p>
<p>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.</p>	<p>The organisation's leadership team can support a counter fraud culture by:</p> <ul style="list-style-type: none"> • Providing visible support for counter fraud and corruption activity. • Recognising the risk of fraud and corruption and the harm it can cause to the 	<p>Fin Regs 1.3 Fin Regs 12.2</p> <p>Counter-Fraud & Corruption Strategy and Fraud Response Plan revised 2016 – approved by EMT.</p> <p>Employee Code of Conduct</p> <p>Corporate Fraud Team</p>	<p>The Counter-Fraud Team Leader reports to the Service Leader Internal Audit.</p> <p>Revisions to the Counter-Fraud & Corruption Strategy and Fraud Response Plan in 2018 – commended by the S&A Committee and approved by the P&R committee, November 2018 (363/18).</p> <p>Change Fund bid to fund the</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending actions in bold)
	<p>organisation and to those the organisation helps and/or protects</p> <ul style="list-style-type: none"> • Including reference to counter fraud and corruption activities in the principles of good governance and standards of conduct adopted by the organisation • Ensuring the organisation is responsive to new fraud and corruption risks • Embedding strong counter fraud controls and systems within the organisation • Providing visible support and resourcing for fraud awareness activity • Supporting counter 	<p>based within Internal Audit.</p> <p>Counter Fraud arrangements are considered as part of the annual governance statement</p>	<p>appointment of temporary Counter Fraud Officer in 2019/20 & 2020/21 approved. Post filled internally from May 2019.</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending actions in bold)
	fraud and corruption training throughout the organisation <ul style="list-style-type: none"> • Ensuring that other governance papers, strategies and policies include fraud and corruption risks wherever relevant 		
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.	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. The organisation's leadership team can also provide strong and genuine support by delegating appropriate authority to counter fraud professionals	Fin Regs 1.3 Fin Regs 12.2 Remit of Scrutiny & Audit committee Local Code of Corporate Governance includes reference to counter-fraud work. Annual Governance Statement	Employee Fraud Investigation Framework established. Local Code of Corporate Governance annually updated in line with Delivering Good Governance 2016 and approved by S&A committee in June 2018 (205/18). Corporate Counter Fraud Review 2018/19 – commended by the S&A Committee and approved by the P&R committee, November 2018 (363/18).

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending 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"> • Formal fraud risk management process • Production, maintenance and review of a fraud strategy • Formal fraud awareness activity • Clear directions on actions to be taken if fraud or corruption is discovered 	<p>Counter-Fraud & Corruption Strategy</p> <p>Fraud Response Plan</p> <p>Corporate Fraud Team</p>	<p>Fin Regs set out the zero tolerance approach and the CF Strategy sets out how the council will seek to detect fraudulent activity.</p> <p>The script for employee Fraud Awareness e-learning is with the Council's Organisational Development team for conversion into an online course.</p> <p>Further opportunities in fraud prevention/detection exist including:</p> <ul style="list-style-type: none"> • Extended data matching • Fraud awareness e-learning • Review of Housing applications • Review of school placement applications • Benchmarking of CF arrangements / performance • Use of NFI tools / pilots

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending actions in bold)
			<ul style="list-style-type: none"> • The disruption of Serious Organised Crime through procurement fraud awareness.
B1 Fraud risks are routinely considered as part of the organisation's risk management arrangements.	Fraud risk identification could include: <ul style="list-style-type: none"> • Compare identified risks with other similar organisations • Fraud risk workshops within departments • Fraud risk review conducted by internal audit, external audit or specialist consultant 	6 monthly counter fraud reports to S&A Senior Managers questionnaire on Fraud Risks in July 2015	To be considered as part of risk management and included in risk registers. Re-issue Senior Managers questionnaire on Fraud Risks.
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	Local Code of Corporate Governance annually updated in line with Delivering Good Governance 2016 and approved by S&A committee in June 2018 (205/18).

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending actions in bold)
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.	An evidence based key fraud risk will be tested by an NFI pilot exercise matching for fraud and incorrectness in Non-Domestic Rates. Matching to take place in June 2019.
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	Counter fraud work contributes to the council's priorities including: 1. Inequality reduction (Housing, Education, Blue Badge) 2. Sustainable communities (Housing) 3. Effectiveness, Efficiency & Fairness (Advice to services, local taxation, resource allocation, responsibility & accountability)	See A4 Further Opportunities

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending 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	Counter-Fraud & Corruption Strategy and Fraud Response Plan revised 2018 – commended by the S&A Committee and approved by the P&R committee, November 2018 (363/18).
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	'Working with Partners' section within 2018 Strategy.

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending 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"> • Develop a counter fraud culture • Prevent fraud through internal control measures • Use techniques to validate data • Publicise counter fraud policy and actions <p><u>Responsive</u></p> <ul style="list-style-type: none"> • Detecting fraud through data and intelligence analysis • Implement effective reporting arrangements • Investigate fraud referrals 	<p><u>Proactive</u></p> <ul style="list-style-type: none"> • Partnership work with internal colleagues • Online fraud reporting form from April 2016 • Robust internal controls • Intranet publicity <p><u>Responsive</u></p> <ul style="list-style-type: none"> • Data matching – internal and NFI. • Fraud response plan • Whistleblowing • Recovery of losses • Disciplinary/legal action • Specialist investigations 	<p>Continuous auditing developed by Internal Audit during 2018/19 and will be further developed in 2019/20.</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending actions in bold)
C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.	The strategy should- <ul style="list-style-type: none"> • Allow for measurement • Identify the key fraud risks • Be considered by audit committee 		Amended Strategy, Response Plan & Whistleblowing Policy commended by the S&A Committee and approved by the P&R committee, November 2018 (363/18).
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.	Internal Audit assessment. External Audit comment. Annual Governance Statement.	6 monthly reports to S&A summarise counter fraud activity in the period and emerging risks. The CFT report to the Service Leader internal audit and the annual internal audit plan will include an annual assessment of resource vs risk. Assessed as part of the management restructure, when a new post of Team Leader Counter Fraud was created. Further assessment of resource will follow in stage 2 of the organisational structure review.

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending 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.	Ongoing consideration will be given to the training requirements of counter fraud staff.
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. Service Level Agreement with DWP	The CFT work with partners including the DWP, NFI, the National Anti-Fraud Network and Police Scotland to share data and intelligence to support counter fraud activity.
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: <ul style="list-style-type: none"> • Counter fraud policy • Whistleblowing policy 		Policy in place Policy in place	Revised Strategy, Response Plan & Whistleblowing Policy commended by the S&A Committee and approved by the P&R committee, November 2018.

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending actions in bold)
<ul style="list-style-type: none"> • Anti-money laundering policy • Anti-bribery policy • Anti-corruption policy • Gifts & hospitality policy & register • Pecuniary interest and conflicts of interest policies and register • Codes of conduct and ethics • Information Security Policy • Cyber security policy <p>The above policies are x-referenced and are available to staff from the intranet.</p>		<p>Policy in place</p> <p>Policy in place Counter-fraud & corruption strategy and fraud response plan Fin Regs / Code of Conduct</p> <p>In place for elected members & staff</p> <p>In place for elected members & staff</p> <p>Policy in place</p>	<p>IT Security Policy finalised October 2018.</p>
<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.</p>	<p>A proactive plan can be developed to achieve early detection of fraud and corruption</p>	<p>Key risks are addressed thus contributing to the overall goal.</p>	<p>Proactive work will continue to be planned as a response to the key fraud risks faced by the council.</p>

CIPFA Code of Practice	CIPFA Good Practice Guidance	Evidence	Action taken (2018/19) & required (2019/20) (required / pending actions in bold)
E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.		National Fraud Initiative Scottish Local Authority Investigator's Group National Anti-Fraud Network Scottish Local Authority Chief Internal Auditor's Group	The bulk of the NFI matches were received on 31 January 2019. A review of the information and subsequent investigations are ongoing. The council have identified for an NFI pilot exercise matching for fraud and incorrectness in Non-Domestic Rates. Matching to take place on 30 June 2019.
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	Corporate Counter Fraud Review 2018/19 – commended by the S&A Committee and approved by the P&R committee, November 2018.