Report Reference Number: A/20/23

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To:	**Audit and Governance Committee**
Date:	**27 January 2021**
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Lead Officer:	**Karen Iveson; Executive Director (s151 Officer)**

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Title: Counter Fraud Framework Update

Summary:

In line with the new UK national counter fraud strategy for local government, the council's fraud and corruption strategy has been refreshed. This report also provides an update to the committee on progress against the actions set out in the previous strategy and presents an updated counter fraud risk assessment which reflects the current fraud risks facing the council. The Counter Fraud and Corruption Policy has been updated to reflect new guidance from the Attorney General.

Recommendation:

That the Committee recommend that the Executive approve a new Counter Fraud and Corruption Strategy for 2020 to 2023 and an updated Counter Fraud and Corruption Policy. In addition, the Committee is asked to comment on and note the updated Fraud Risk Assessment.

Reasons for recommendation

To help ensure the council maintains robust counter fraud arrangements.

1   Introduction

1.1   Fraud is a serious risk to the public sector in the UK. When fraud is committed against the public sector, money is diverted from vital public services into the hands of criminals. Fraudsters are constantly refining their tactics and techniques in order to circumvent the checks and controls put in place to prevent fraud from occurring. In order to protect income and assets public sector bodies must therefore continuously develop their counter fraud measures to meet the evolving threats. A strong deterrent is required to prevent fraud from being committed.

1.2 This report documents the annual review of the council's counter fraud framework which this year includes a new counter fraud and corruption strategy, revised action plan, updated fraud risk assessment, and an update to the Council's Counter Fraud and Corruption Policy. There is also an update on the national and local counter fraud trends and developments; particularly arising from the Covid-19 pandemic.

2 National Picture

2.1 As part of the government's response to the Covid-19 pandemic local authorities have been responsible for issuing grants to eligible businesses. The schemes resulted in £11.7 billion being paid out to small and medium sized business across the UK[1] and further schemes were introduced throughout 2020. Fraudsters attempted to divert grants from legitimate businesses, and ineligible businesses have attempted to mislead councils about their circumstances in order to receive grants. Councils have been required to implement suitable counter fraud measures and are now undertaking post assurance work to ensure that all the grants were correctly paid. If fraud or error is detected, then a recovery process will begin that can include the prosecution of offenders.

2.2 Cyber-crime is a growing concern for local government in the UK. There have been a number of attacks on UK public sector organisations over the past few years, e.g., Parliament and the NHS. In 2019 Kaspersky reported a 60% increase in ransomware attacks on local governments worldwide and pointed towards similar attacks in the United States.[2] A council in the North East suffered a catastrophic cyber-attack in 2020. The ransomware attack removed access to multiple systems across the council and criminals tried to extort money from the council to restore them. A return to full functionality has taken many months. It is important that all councils make members of staff aware of cybercrime and what precautions to take in order to prevent it.

2.3 The most recent analysis of fraud against local authorities from CIPFA is the 2019 Annual Fraud and Corruption tracker. The report details levels of fraud detected by local authorities in 2018/19. Key findings of the report include the following:

- The largest area of loss for local authorities is in council tax related discounts, e.g., single occupancy discount and council tax support. The amount of fraud detected has risen by over £5m since 2016/17 to £30.6m.

- Procurement fraud is an area seen as being a high risk for local authorities. Fraud can take place at any point in the supply chain of goods and services making it difficult to detect. CIPFA reports that 12% of procurement fraud cases detected involved insider fraud and 5% involved serious and organised fraud.

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[1]   www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses
[2] Story of the Year 2019 – Cities under Ransomware Siege, Kaspersky

- Housing and tenancy fraud remains significant with over 3600 instances reported in 2018/19. However, the number of cases detected has reduced over the last two years indicating that efforts by councils to tackle the issue may have had a positive impact.

2.4 Veritau completed post-assurance checks on Covid-19 grants for the Council in October and further checks will be made as part of the upcoming 2020/21 National Fraud Initiative. Cyber-crime awareness will form part of all fraud awareness training delivered at the council. The areas highlighted by the CIPFA report are all areas of focus for the counter fraud team in 2020/21.

3 Local Trends

3.1 As part of the Small Business Grant Fund, Retail Hotel and Leisure Grant Fund and the Local Authority Discretionary Fund the Council have processed over 1550 applications, resulting in payments totalling more than £17.7 million. Council officers conducted checks into each application to make sure they met the criteria set by government and the payments were being made to the correct people. Where concerns were identified cases have been directed to the counter fraud team.

3.2 The council is sending monthly reports detailing payments to the Department for Business, Energy & Industrial Strategy (BEIS) and has produced a risk assessment for the Covid-19 grant schemes detailing what steps have been taken to mitigate fraud risk.

3.3 The team has been liaising with the National Investigation Service (NATIS), the National Anti-Fraud Network (NAFN), and the Department for Business, Energy & Industrial Strategy to report fraudulent applications by organised criminals, as well as sharing intelligence with council colleagues.

3.4 The routine work of the counter fraud team has been disrupted by the Covid-19 pandemic; however, this work is now restarting. Activities like visits to people's homes and interviews under caution in council offices are still affected, but the team are finding new ways to undertake this work.

4 Review of Counter Fraud Strategy and Risk Assessment

4.1 The council's Counter Fraud and Corruption Strategy 2017-19 was approved in January 2017 and covered the period of the national counter fraud strategy for local government – Fighting Fraud and Corruption Locally. The national strategy is refreshed periodically and has the support of counter fraud professionals, the Local Government Association, and HM Government. The most recent iteration, Fighting Fraud and Corruption Locally – A Strategy for the 2020s (see Appendix A) was published in April 2020.

4.2 An updated Counter Fraud and Corruption Strategy for 2020-23 (see Appendix B) has been drafted and the committee is asked for comments ahead of approval by the Executive. The strategy takes into account the new Fighting Fraud & Corruption Locally guidance.

4.3   As part of this review the council's counter fraud policy and counter fraud risk assessment were also reviewed. The updated risk assessment is included at Appendix C.

4.4   On 31 December 2020, guidance from the Attorney General on disclosure in criminal prosecutions came into force. The new guidance seeks to ensure that all relevant evidence is disclosed to the defence ahead of a criminal prosecution, and that there is an opportunity for discussion between the defence and prosecutor after an interview under caution up to commencement of any proceedings. This guidance is reflected in section 5.12 of the updated Counter Fraud and Corruption Policy (Appendix D) and section 3.6 of the Counter Fraud Prosecution Policy (Annex A to the policy). There have also been updates to some job titles.

5   Legal/Financial Controls and other Policy Matters

5.1   Legal issues

5.1.1   There are no legal issues relating to this report.

5.2   Financial Issues

5.2.1   There are no financial implications as a result of this report.

6   Conclusion

6.1   This report updates the committee on national and local developments within counter fraud. It also presents a new counter fraud and corruption strategy for 2020-23 and details the outcomes of the annual review of counter fraud arrangements which helps to ensure that the Council maintains a robust counter fraud policy framework and has an up-to-date fraud risk assessment in place. There is also an update to the Counter Fraud and Corruption Policy for member approval.

7   Background Documents/Contacts

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Appendices:

Appendix A - Fighting Fraud and Corruption Locally: A strategy for the 2020s
Appendix B - Counter Fraud and Corruption Strategy 2020-23
Appendix C - Fraud Risk Assessment
Appendix D - Counter Fraud and Corruption Policy (updated)