



REPORT TO: OVERVIEW AND SCRUTINY COMMITTEE

DATE: 21 January 2021

REPORT OF THE: SECTION 151 OFFICER (ANTON HODGE)

TITLE OF REPORT: COUNTER FRAUD FRAMEWORK UPDATE

WARDS AFFECTED: ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The council approved a counter fraud and corruption policy and strategy in 2016. The strategy was written to run up to 2020 in line with national guidance. This report introduces a refreshed counter fraud and corruption strategy based on updated national guidance and updates the Council's counter fraud and corruption policy.
- 1.2 The report also presents the council's annual fraud risk assessment for review by the committee.

2.0 RECOMMENDATION(S)

- 2.1 Members are asked to
- a) approve the new counter fraud and corruption strategy;
 - b) comment on the updated counter fraud and corruption policy; and
 - c) comment on and note the analysis of current fraud risks faced by the council.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To help ensure the council maintains robust counter fraud arrangements.

4.0 SIGNIFICANT RISKS

- 4.1 The risk of fraud against public bodies is growing. It is essential that the council maintains up to date counter fraud arrangements to minimise financial losses and safeguard public money.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 Seeking to minimise losses to fraud helps to ensure that resources are directed to delivering services and supports the achievement of overall council aims.

6.0 BACKGROUND

- 6.1 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.

- 6.2 One in every three crimes committed in the UK is categorised as fraud.¹ The most recent estimate of the cost of fraud against local authorities is up to £7.8 billion annually.²

7.0 NATIONAL PICTURE

7.1 As part of the government's response to the Covid-19 pandemic local authorities have been responsible for issuing grants to eligible businesses. The initial schemes closed in August 2020 with £11.7 billion being paid out to small and medium sized business across the UK.³ Fraudsters attempted to divert grants from legitimate businesses, and ineligible businesses have attempted to mislead councils about their circumstances in order to receive grants. Further support schemes have been introduced to support both businesses and residents and these have also been the subject to fraud. All councils responsible for administering grants and other forms of government support are undertaking post assurance work to ensure that they were correctly paid. If fraud or error is detected then a recovery process will begin that can include the prosecution of offenders.

7.2 Cyber-crime is a growing concern for local government in the UK. 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. It took many months before the council was able to fully restore systems for staff and residents. In 2019 Kaspersky reported a 60% increase in ransomware attacks on local governments worldwide and pointed towards similar attacks in the United States.⁴ It is important that all councils make members of staff aware of cybercrime and what precautions to take in order to prevent it.

7.3 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.

7.4 Post assurance checks on Covid-19 grants will take place in 2021 and additional 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.

8.0 LOCAL PICTURE

8.1 As part of the Small Business Grant Fund, Retail Hotel and Leisure Grant Fund and the Local Authority Discretionary Fund the Council has processed over 2100 applications,

¹ Economic Crime Plan 2019-23, HM Government

² Annual Fraud Indicator 2017, Crowe Clark Whitehill

³ www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses

⁴ Story of the Year 2019 – Cities under Ransomware Siege, Kaspersky

resulting in payments totalling more than £26 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.

- 8.2 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 risks.
- 8.3 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.
- 8.4 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.

9.0 COUNTER FRAUD FRAMEWORK

- 9.1 The council's Counter Fraud and Corruption Strategy 2016-19 was approved in July 2016, 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 1) was published in April 2020.
- 9.2 An updated Counter Fraud and Corruption Strategy for 2020-23 (see Appendix 2) has been drafted and the committee is asked to approve it. The strategy takes into account the new Fighting Fraud & Corruption Locally guidance.
- 9.3 As part of this review the Council's fraud risk assessment was also reviewed. The updated risk assessment is included at Appendix 3.
- 9.4 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 resulted in a relatively minor update to the Council's Counter Fraud and Corruption Policy which is contained in Appendix 4, see section 2.36 in Annex A of the policy. This refreshed version also reflects changes and updates to job titles at the Council and within Veritau.

10.0 IMPLICATIONS

- 10.1 The following implications have been identified:
 - a) Financial
None
 - b) Legal
None
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental and Climate Change, Crime & Disorder)
None

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Background Papers:

- None

Appendices:

Appendix 1: Fighting Fraud and Corruption Locally – A Strategy for the 2020s
Appendix 2: Counter Fraud and Corruption Strategy 2020-23
Appendix 3: Fraud Risk Assessment 2021
Appendix 4: Counter Fraud and Corruption Policy (updated)