



## **Governance Scrutiny Group**

**Thursday, 30 June 2022**

## **Annual Fraud Report 2021/22**

### **Report of the Director – Finance and Corporate Services**

#### **1. Purpose of report**

- 1.1. The purpose of this report is to summarise the incidence of fraud and fraud prevention activities at the Council during the year 2021/22.

#### **2. Recommendation**

It is RECOMMENDED that the Governance Scrutiny Group notes the Annual Fraud Report for 2021/22 and, in particular, the requirement for further fraud awareness training in 2022/23 (as set out in paragraph 11.2 below).

#### **3. Reasons for Recommendation**

- 3.1 To provide an annual update to the Governance Scrutiny Group regarding the Council's fraud prevention environment.
- 3.2 This report has been prepared by BDO LLP ("BDO") to summarise the fraud prevention and detection activities undertaken by the Council. For the avoidance of doubt, BDO has not undertaken a full fraud risk assessment or audited any information provided to it by the Council's officers.

#### **4. Supporting Information**

- 4.1 The latest Chartered Institute of Public Finance and Accountancy ("CIPFA") Annual Fraud and Corruption Tracker Summary Report was published in 2020. This report highlights that:

- The total estimated value of fraud impact on local government was £7.3bn, with the amount identified or prevented by local authorities in 2019/20 estimated at £239.4m, £13.6m less than last year's total;
- The average value per fraud case in 2019/20 was £5,090, which is higher than the average of £3,600 in 2018/19;
- The approximate number of frauds detected or prevented has fallen to 47,000 in 2019/20 from the 71,000 cases found in 2018/19;
- The two greatest areas of perceived fraud risk for 2019/20 remained unchanged from the previous year: procurement, council tax single person discount (SPD).

- The perceived third, fourth and fifth highest fraud risk areas are business rates, adult social care and council tax reduction (CTR) respectively;
  - The area that has grown the most in the last year is council tax single person discount (SPD) with an estimated increase in the amount of money lost to SPD fraud of £9.6m since 2018/19; and
  - Council tax fraud represents 65.1% of the identified instances of fraud, with an estimated value of £35.9m.
- 4.2 CIPFA has not yet published a report for the 2021/22 year. However, fraud remains a concern in the public sector and more recent data is likely to reflect the impact of pressures caused by the Covid-19 pandemic. For example, grant claims became a significant risk due to the short timescales in which government bodies were required to implement and issue the grants.
- 4.3 As an indication of the scale of this risk across the public sector, the Department for Business, Energy and Industrial Strategy's (BEIS) 2020-21 accounts report estimated levels of losses due to fraudulent claims under the Bounce Back Loan Scheme of £4.9bn<sup>1</sup>. Furthermore, it is estimated that material levels of fraud are present in the business support loans issued across the UK by local authorities. Grant claims are discussed in more detail in paragraph 10 of this report below.
- 4.4 The purpose of this report is to provide an overview of general and specific fraud related issues that have arisen at the Council during 2021/22.

## **5. Preventing and Detecting Fraud**

- 5.1 Fraud and conduct issues can involve Council employees, elected members, partners, customers and the general public. Both conduct and fraud issues can be identified/raised in a number of ways:
- Pro-active detection work, undertaken internally or externally, for example as part of the National Fraud Initiative; and
  - Referral by employees, elected members, partner organisations, or members of the public identification by management.
- 5.2 In carrying out its functions and responsibilities, the Council is firmly committed to dealing with fraud or corruption and will deal equally with attempted and perpetrated fraud or corruption from inside or outside the Council.
- 5.3 The Council does not have a dedicated fraud prevention resource. However, it is the responsibility of managers as part of the internal control environment to ensure controls are in place to mitigate the risk of fraud. Officers with responsibility for monitoring and reporting levels of housing benefit and council tax fraud (under the NFI) and grant fraud, as described in the report, are located within the Finance Directorate. These areas are therefore subject to

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<sup>1</sup> Department for Business, Energy and Industrial Strategy's (BEIS) 2020-21 accounts The Report of the Comptroller and Auditor General to the House of Commons

oversight by the same managers and directors, ensuring a level of consistency in the fraud control framework. There have not been any changes to the control environment in 2021/22.

- 5.4 Internal Audit may also identify fraud through their reviews and are available to support managers to investigate any allegations of fraud. During 2021/22 Internal Audit services were provided by BDO.
- 5.5 The Council's Anti-Fraud and Corruption Policy was reviewed during 2019/20 to ensure it is up to date and appropriate. BDO also provided comments as part of their Internal Audit plan in 2020/21 and compared it to the Government Functional Standard for Counter Fraud, Bribery and Corruption. The policy is due for review in 2024. For the avoidance of doubt, no additional work has been undertaken by BDO in relation to fraud risks beyond the scope of this report and the activities described within it and BDO has not undertaken a fraud risk assessment exercise for the Council.

## **6. Whistleblowing Policy**

- 6.1 It is important to any organisation that any fraud, misconduct or wrongdoing by workers or officers of the organisation is reported and properly dealt with. The Council encourages all individuals to raise any concerns that they may have about the conduct of others within the Council.
- 6.2 There are no specific awareness campaigns, such as posters advertising the whistleblowing policy. However, employees are made aware of the whistleblowing procedures on the staff intranet page and managers also encourage an open culture and encourage their teams to discuss any concerns with them.
- 6.3 The whistleblowing policy applies to all employees and those contractors working for the Council, on Council premises, for example, agency staff, builders. It also covers suppliers and those providing services under a contract with the Council on their own premises.
- 6.4 BDO has not reviewed the Council's whistleblowing policy for the purpose of this report. Recommendations in relation to staff awareness and training are included at **paragraph 11.2** below.
- 6.5 There have been no whistleblowing concerns reported during 2021/22.

## **7. National Fraud initiative (NFI)**

- 7.1 The NFI is a data matching exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. A national exercise is undertaken every two years, although electoral roll and council tax data is required to be submitted annually. Once the data-matching process for each exercise is completed, the NFI makes the output available to the relevant participating body for consideration and investigation via the

secure NFI software. Participating bodies are then responsible for investigating any matches.

## 7.2 Council Tax Single Person Discount

The Council started a review in respect of single person discounts via the NFI in December 2021. The results of this exercise were:

2021/22	2020/21	
517	721	Number of cases identified by NFI
23	591	Number of live cases investigated
17	81	Number of cases where the discount was removed
£2,146	£24,222	Value of extra Council Tax billed

7.3 The number of cases investigated, and the additional council tax billed, reduced significantly compared to the prior year. This is due to other work pressures and resource constraints, with resources being diverted to Business Grants and Council Tax Energy Rebates payments since these had been assessed as priority tasks. The Council is planning to undertake a Single Person Discount review during 2022/23.

7.4 Housing Benefit awards and localised Council Tax Support awards were also reviewed in 2021/22:

2021/22	2020/21	2019/20	
93	182	1,059	Number of matches reviewed
0	0	1	Number of frauds identified
3	3	6	Number of errors identified
£14,496	£2,374	£52,712	Amount of Council Tax errors identified

7.5 Following consultation by the Cabinet Office in 2020/21, the market trader and alcohol license data was not collected and therefore there are no statistics to report. The Cabinet Office also amended the matching rules in 2020/21 which significantly improved the quality of the matches. This has resulted in the reduction in matches to be reviewed for a second year, as shown in the table above.

7.6 All discounts awarded (except single person discounts due to the volume) are reviewed on an annual basis and applicants are advised that they should inform the Council of any changes. The Council does not undertake any wider exercises to publicise measures taken against residents who have incorrectly claimed a discount to act as a deterrent, with the annual reminders instead relied upon to remind residents of their obligations.

7.7 Where it is discovered that a discount has been incorrectly claimed, the discount is removed on the billing system and the correct charge raised (these amounts are included in the value of extra council tax billed quoted in the tables above). The discount is removed from the customer's account from the date that they are no longer entitled to it. The charge is then recovered as unpaid Council Tax, subject to reminders/summons as per the Council's recovery policy.

## 8. Internal Investigations 2021/22

8.1 There have been no allegations of fraud reported in 2021/22. However, as noted in **paragraph 6.2** above, the internal whistleblowing hotline is not actively promoted, which could potentially impact the reporting rate.

## 9. Benefit Fraud Investigations conducted by the Counter Fraud and Compliance Directorate

9.1 The Council no longer investigates Housing Benefits frauds. These are undertaken by the Department for Work and Pensions (DWP) Counter Fraud and Compliance Directorate (CFCD).

9.2 The DWP has a suite of Management Information (MI) that allows Local Authorities (LAs) to monitor the progress of referrals made to CFCD and enables LAs to see the outcomes CFCD are achieving on their behalf. Additionally, it enables LAs to make a comparison of the volume of referrals that they have made against the national average.

9.3 For the second year running due to Covid-19, no data has been available from the DWP at the time of this report.

## 10. Internal Audit – Covid-19 Grants Assurance (SBGF and RHLG)

10.1 In 2021/22, the Council has administered the following grants:

- Restart Grants – from April 2021
- Omicron Hospitality and Leisure Grants (OHLG) – from January 2022; and
- Additional Restrictions Grant (ARG) – covered the whole period.

10.2 The number and quantum of grants issued by the Council in 2021/22 was as below:

<b>Grant type</b>	<b>Number of grants awarded</b>	<b>Total quantum of payments (£)</b>
April 2021 - Restart	530	£4,234,032
April 2021 - ARG	232	£420,349
January 2022- OHLG	178	£591,369

January 2022 - ARG	130	£142,500
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10.3 As highlighted above, there are indications that grant claim fraud levels across the public sector have been significant in 2021/22. To try and prevent fraudulent claims being paid, the Council applied a defined procedure for assessing and awarding all grants, incorporating a number of checks and controls. The process is outlined below:

- Applicants completed an online application (only one application form for both applicable grants);
- Each application was assessed by an officer for eligibility (Restart/ARG/None or OHLG/ARG/none) based on the nature of the business and the sector they operated in;
- Supporting evidence checked, including:
  - Proof of trading entity/recent trading;
  - Proof of ownership of applicant's bank account; and
  - Evidence of recent trading.
- Details uploaded to Spotlight (online Government system to check validity of company/charity records);
- Bank account online check via NFI website; and
- Once all above checked then file sent to Finance department to make the payment.

10.4 As outlined above, the Council used its own internal controls such as ensuring officers obtained supporting evidence and made use of existing frameworks such as Spotlight and NFI to cross check data. The Council received a total of 792 grant applications in April 2022, of which 762<sup>2</sup> (96%) were approved and paid. In January 2022, the Council received 354 applications, of which 308<sup>3</sup> (87%) were approved and paid. No analysis has been undertaken for the purpose of this report to assess the failed applications in detail to understand whether they were rejected by the Council or withdrawn by the applicants, but it is evident that not all applications resulted in a payment being made.

10.5 The details of all grants paid were submitted to BEIS, the department ultimately responsible for the grants and the Council was informed that a random sample would be requested for auditing. The Council is required to provide all supporting documents it collected for any selected samples to demonstrate that it has confirmed the applicant's eligibility before making payment. As at the date of this report, the Council has received a request from BEIS for the documents relating to one OHLG grant (in April 2022) and three Restart grants (in May 2022). No feedback has been received from BEIS as at the date of this report.

10.6 BDO's Internal Audit team completed an audit of the processes and controls in place for issuing COVID-19 grants in May 2021. The report concluded that there was substantial assurance over the design and operational effectiveness

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<sup>2</sup> 530 + 262 per summary table above

<sup>3</sup> 178 + 130 per summary table above

of controls. This was on a sample basis and their conclusions relate to the sample only.

## **11. Fraud Awareness Training and Counter Fraud Staff Survey**

11.1 During 2020/21 BDO also undertook fraud awareness training to staff across the council and undertook a survey to measure the impact of this training.

11.2 No training has been undertaken in 2021/22. However, it is recommended that training is regularly undertaken, and it is proposed that a fraud awareness session is scheduled to take place in the 2022/23 year. It may also be relevant to consider the level of awareness around the whistleblowing procedures as part of this training (see **paragraph 6.2** above).

## **12. Risks and Uncertainties**

12.1. If recommendations are not acted upon, there is a risk that internal controls are weakened, and the risk materialises.

## **13. Implications**

### **13.1. Financial Implications**

There are no financial implications associated with the recommendations to this report.

### **13.2. Legal Implications**

There are no legal implications associated with the recommendations to this report.

### **13.3. Equalities Implications**

There are no equalities implications associated with the recommendations to this report.

### **13.4. Section 17 of the Crime and Disorder Act 1998 Implications**

There are no Section 17 implications associated with the recommendations to this report.

## **14. Link to Corporate Priorities**

Quality of Life	The detection and subsequent investigation of fraudulent activity supports the Council's ability to deliver services across its priority areas.
Efficient Services	
Sustainable Growth	
The Environment	

## 15. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group notes the Annual Fraud Report for 2021/22 and, in particular, the requirement for further fraud awareness training in 2022/23 (as set out in paragraph 11.2 above).

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<b>Background papers available for Inspection:</b>	None.
<b>List of appendices:</b>	None.