Audit Committee

19th March 2024

Title	**Counter Fraud, Bribery and Corruption Strategy**
Purpose of the report	To make a decision and a recommendation to Council
Report Author	Internal Audit Manager, Punita Talwar
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All priorities Community Addressing Housing Need Resilience Environment Services
Recommendations	**Audit Committee is asked to:** **1. Endorse the Council's Counter Fraud, Bribery and Corruption Strategy which forms part of the Council's constitution** **2. Approve the changes recommended to the Council's Counter Fraud, Bribery and Corruption Strategy.**
Reason for Recommendation	**The Audit Committee is required to make any recommendations for change to the Corporate Policy and Resources Committee.**

1.   Summary of the report

What is the situation	Why we want to do something
• The Council's Counter Fraud, Bribery and Corruption Strategy sets out the Council's commitment to dealing	• With the continued Cost of Living Crisis, fraud and corruption occurrences are perceived nationally to be on the increase,

effectively with fraud, bribery, and corruption, reinforcing the important role it plays in the overall corporate governance framework.
 	
• The key elements of the Council's strategy to combat fraud, bribery and corruption are:
 	
    • An open and honest culture
 	
    • Effective systems of internal control
 	
    • Adequate preventative and deterrence measures
 	
    • Systems for detection and investigation to stop/recover fraud losses
 	
    • Understanding and awareness within the Council and the adoption of a "whistleblowing" policy
	leading to financial losses to the public purse, reduced public services and reputational damage. It remains essential for the Council to protect its assets, resources, and information systems to minimise heightened risks of fraudulent activity.
	
	• During periods of heightened volatility there is likely to be increased scrutiny relating to fraud management from the government, regulators and the public.

This is what we want to do about it	**These are the next steps**
• Ensure that the Council's fraud management response is in line with good practice and proportionate to the overall level of perceived risk. • Continue to review the strategy annually to consider any necessary updates and areas of focus	• The Audit Committee is required to review the Council's Counter Fraud, Bribery and Corruption Strategy annually and make any recommendations for change to the Corporate Policy and Resources Committee. • All members of staff to continue to remain alert to the risk of fraud, bribery and corruption. • Management accountability for maintaining and operating adequate systems of internal control to minimise heightened risks of fraudulent activity.

	• Internal Audit to continue to consider fraud risk (encompassing bribery and corruption) as part of audit planning and risk assessment, drawing out areas requiring improvement

1.1 The continued importance of having a defined approach for how Spelthorne will counter fraud, bribery, and corruption in the form of a strategy is acknowledged. This report sets out the proposed changes to the strategy **,** these being of a minor nature to ensure it remains relevant and current. A track changes version can be seen at Appendix 1, with a clean version at Appendix 2. The strategy was previously reviewed and reported to Audit Committee in March 2023 and subsequently a recommendation was made to Full Council in May for the proposed changes to be approved.

1.2 *'Every year in the UK up to £49 billion of public money is lost to fraud. Resources are stretched and fraudsters are increasingly sophisticated, making the public services more vulnerable than ever to criminal activity'. (CIPFA – Chartered Institute of Public Finance)*

1.3 We continue to face economically challenging times and with the continued Cost of Living/ Cost of Doing Business Crisis, fraud and corruption occurrences are perceived to be on the increase. It remains essential for the Council to protect its assets, resources, and information systems to minimise heightened risks of fraudulent activity and cyber-crime. Such occurrences could lead to significant business disruption, reputational damage, financial losses to the public purse, reduced public services if resources are exploited by fraudsters - adversely impacting those members of the community who genuinely need services. There is also an associated risk of harm to vulnerable members of the community targeted by fraudsters. Poor data security and breaches are often viewed as an enabler for fraudulent activity to prevail.

2. Key issues

2.1 The Audit Committee is required to review the Council's Counter Fraud, Bribery and Corruption Strategy annually and make any recommendations for change to the Corporate Policy and Resources Committee. The Strategy forms part of the Council's Constitution and is in line with best practice. The Strategy continues to underpin the Council's commitment to dealing effectively with all forms of fraud, bribery, and corruption, demonstrating the important role it plays in the overall corporate governance framework.

2.2 As part of this review, lead officers from high-risk public fraud teams and the external service provider undertaking fraud investigations have had an opportunity to feed back any comments on the current strategy document (version approved by Full Council in May 2023). Some minor changes are proposed to the strategy by the Internal Audit Manager to reflect current developments. Some additional narrative has been included in green text at Appendix 1 along with some minor track changes and these relate to the following sections/references within the strategy document:

- Under the Counter fraud measures section 17 under the broader heading of Detection and Investigation, added '**with some taken effect'** to recognise that the authority has progressed specific counter fraud initiatives during the last year in responding to public fraud risk, such as the bulk data matching exercise to target social housing fraud and participation in the Countywide Single Person Discount Exercise. Also added to this section '**Measures are taken to ensure the services procured from the external service provider continue to provide a targeted approach to counter fraud, proportionate to perceived risk'**.

- Under the Awareness heading at section 20 the emphasis on referring all suspected cases to the external service provider has been removed, replacing with referring **'reasonably informed'** suspicions (based on professional judgement) as this will ensure that the level of referrals and caseload remains more manageable for the external service provider within capacity levels and that the scope of work remains focused on higher risk cases. It should be noted that it is challenging to predict fraud occurrence outcomes accurately until investigations have progressed and intelligence gathered, nonetheless this revised approach has been agreed with key contacts in frontline services with a view to streamlining processes further.

2.3   Best practice principles promoted in publications such as CIPFA's 'Fraud and Corruption Tracker, national report 2020', and 'Fighting Fraud and Corruption Locally' (2020) have been considered as part of the strategy review, and current activity is deemed as proportionate relative to the perceived risk and size of the authority.

2.4   Several Counter Fraud measures and principles continue to operate as part of the strategy, and these are highlighted below:

(i)   **Govern** – Continued commitment and senior executive support remains essential in promoting and embedding a counter fraud, bribery and corruption culture.

(ii)   **Open and honest Culture** – An acceptance that there is always going to be fraud and as public servants everyone has a part to play in remaining alert to the possibility of fraud, bribery or corruption and being mindful that the risks of occurrence can become even more prevalent during periods of ongoing economic instability and geopolitical uncertainty. This links to responsibility for raising concerns in accordance with policy and procedure. The Confidential Reporting Code (Whistleblowing Policy) refers to Fraud, Bribery and Corruption as constituting a serious concern category and sets out the protocol.

(iii)   **Communicate and inform** – Spelthorne endeavours to alert Members, officers, and communities of known scams and suspicious communications. This risk remains heightened during the continued Cost of Living and Cost of Doing Business Crises as unfortunately temptation to perpetrate fraud and wrongdoing increases to alleviate need. High risk public fraud cases proven are publicised to serve as a deterrent, and the Council's communication channels have encouraged members of the public to report anything suspicious, including suspected fraudulent activity across high-risk public fraud areas such as Housing, Benefits, Council Tax, Business Rates.

(iv)　**Collaboration** - Spelthorne continues to procure specialist counter fraud resource/expertise/services from Reigate and Banstead Council to target high risk public fraud areas which are likely to generate greater financial returns (business rates and housing) as well as deliver wider social benefits. Collaborative working has produced positive outcomes particularly in Housing including two successful prosecution cases reported during 2023/24. For example, in quarter 2 Spelthorne received £22k from a successful prosecution as compensation for the loss, and in addition the court awarded costs to Spelthorne of £6k which would assist with payment for the trial. Reigate also provide Counter Fraud services for five other local authorities in Surrey which enables sharing of intelligence where appropriate to support investigation outcomes. Opportunities to participate in joint data sharing exercises with County and other Councils continues to be promoted in tackling fraud.

(v)　**Prevention -** It is more difficult and time consuming to recover loss post payment or award, so an emphasis on prevention as the most strategic and effective way to address fraud continues to be pursued. It remains the responsibility of everyone to help prevent fraud and corruption by remaining vigilant. Enhanced verification for homelessness applications (prior to award) is an example of a preventative measure currently in place which has led to applications being withdrawn. Further to the revised housing allocation policy which incorporated tightened eligibility and banding criteria, a reregistration process has been undertaken and the Housing team have reported that this has resulted in 1700 re-applications being submitted, these being a significant reduction from the previous level of 3800 applications on the Council's Housing register. This reregistration process may have also contributed to sifting out any <u>potential</u> fraudulent applications that had entered the system prior, as well as promoting efficiencies in managing the register going forward.

(vi)　**Detection and Investigation**- Measures are set out in the attached strategy under 'Detection and Investigation'. Qualified fraud investigators (including Financial Investigators) have access to open source and other intelligence to inform investigations.

(vii)　**Fraud Recording and Reporting** – There is quantifiable reporting of returns and estimated savings delivered through reducing financial losses from fraud and error. This is based on applicable financial savings advised by the Cabinet Office across each of the high-risk public fraud categories. The 2023/24 overall fraud return will be reported in due course in the annual audit report for 2023/24 to provide insight of returns achieved and outcomes across specific categories.

(viii)　**Opportunities** - Increased focus on social housing fraud (such as unlawful sub-letting and wrongly claimed tenancy succession) has been pursued with registered providers. This was reported as the largest growing fraud area in CIPFA'S Fraud and Corruption Tracker 2020.The Cabinet Office notional figure for tenancies recovered currently stands at £93k for every case.

Best practice promotes organisations working together and sharing relevant information to counter fraud. Housing, Internal Audit, Reigate and Banstead Council and A2 Dominion agreed some time ago to the pursual and facilitation of a bulk data matching exercise with a view to freeing up social housing to those in genuine need and reducing the financial burden of temporary accommodation. This is particularly important in view of the Housing crisis and associated challenges facing local government. The strategic lead for Housing has been responsible for managing the day-to-day progress of this project with collaborative input from various parties to coincide with key stages of the project.

Given such a targeted exercise has never been undertaken previously, the scale of potential data matches received has been high and a risk-based approach applied. As at the end of January 2024, some of the highlights reported by Reigate and Banstead Council (fraud team) in terms of progress and outcomes relating to the targeted exercise of tenancy fraud are set out in the following paragraph.

All very high risk, high risk, medium risk and other specific risk category matches have had preliminary fraud checks completed on them, this led to 60 case investigations. There are 43 cases which remain open for investigation, with potential offences under Proceeds of Social Housing Fraud Act (PoSHFA), Council Tax Support (CTS) and The Fraud Act. 15 cases have been closed with No Further Action; 2 cases have been recorded as positive outcomes with £93,000 notional savings attributed to each of them. There will be further reporting on outcomes achieved once the data matching exercise and prioritised checks have been completed in full.

Business Rates and Council Tax are prevalent areas of fraud in local government. Pro-active and reactive fraud initiatives (e.g., targeting small business rate relief and Single Person Discount) continue to be agreed areas of focus with the service area given their risk significance. Customer Services are participating in the Countywide SPD exercise led by County and are awaiting to hear on results to ascertain further action, which could lead to removal of discounts from the taxpayers account(s) and adjustments on invoice balances due.

(ix)   Understanding & Awareness- Reigate and Banstead Council have delivered high risk public fraud awareness training (refresher sessions) to Housing, Benefits and Customer Services during March 2023, as well as Registered Providers. Services were reminded of the scope of Counter Fraud provision and making referrals of suspected cases across all high- risk categories through established channels, which did result in an initial increase in referrals.

In addition, a guide has been produced to support the Housing service in determining cases to refer to the Fraud team for further investigation.

Spelthorne's corporate training platform (WorkRite) includes courses on anti-bribery and corruption, as well as Whistleblowing (fraud, bribery and corruption constitute a serious concern area under the Whistleblowing Policy).

The prevalence of technology enabled fraud continues to be a growing area of concern. Spelthorne provide monthly IT security sessions to educate staff and raise awareness of ongoing threats and the need to remain vigilant. This is a challenging area given the sophistication of techniques applied by online fraudsters. Artificial Intelligence presents new threats as well as opportunities, as it could become easier for criminals to perpetrate fraud and scams on a larger scale, whilst on the other hand facilitate organisations to improve fraud detection and prevention. The specific implications for the Council's activities will need to be reflected upon in due course.

(x)   Internal Audit & Fraud Risk Management - Fraud can be external in nature (public fraud) or internal to an organisation (internal fraud). Managers are accountable for ensuring the adequate operation of systems of internal control in their service areas. Internal Audit provides independent assurance that effective controls and mitigation measures are in place and operating to manage the risk of fraud, bribery and corruption for areas reviewed.

Data analytics continues to be explored and applied where appropriate to detect potential fraudulent and erroneous transactions or activity associated with higher risk datasets. This modern audit approach is intended to provide extended assurance to the Council to safeguard the council's financial resources.

(xi)   Data Sharing and Analytics - Spelthorne already participate in the National fraud Initiative (NFI) every two years, whereby electronic data is matched within and between public and private sector bodies to prevent and detect fraud.

3.   Options analysis and proposal

Either

i. To note the current position and accept the amendments proposed to the Counter Fraud, Bribery and Corruption Strategy. (Preferred option)

Or:

ii. To make further amendments to the Counter Fraud, Bribery and Corruption Strategy.

Or:

iii. To make no changes to the strategy, thereby not reflecting the current position.

4.   **Financial management comments**

Resources required (staff time) to implement actions to prevent and detect Fraud, bribery and corruption risks should be contained within existing budgets. There is approved funding for corporate counter fraud resource until March 2025 (based on 2 FTE) to support Housing, Benefits, Business Rates

and Council Tax in undertaking preventative/detection/investigatory work/preparatory activity relating to potential prosecutions.

5.   Risk management comments

5.1   Associated risks and consequences of fraud, bribery and corruption include financial losses (potentially high value), reputational damage to the authority, corporate liability offence associated with bribery, harm to staff or the local community, and reduced public services for the borough's residents (if resources are exploited by fraudsters).

5.2   Measures are already being taken to ensure the services procured from the external service provider continue to provide a targeted approach to counter fraud, proportionate to perceived risk.

6.   Procurement comments

6.1   The Procurement team were consulted at the time of procuring the external service from Reigate and Banstead Council and this was discussed further at the Procurement Board in November 2022. As the arrangement relates to the procurement of services from another local authority, advice was sought/provided.

6.2   Reigate and Banstead Council provide Counter Fraud Services to several other local authorities across Surrey. When the Council next goes out to market for this service anticipated during 2024, there may be scope to consider collaborative procurement opportunities with a view to maximising savings from procurement activity.

7.   Legal comments

7.1   The Legal team have been consulted regarding the service provider agreement and are reviewing some aspects of the contract further.

8.   Other considerations

8.1   Reigate and Banstead Council have demonstrated continued passion and drive for counter fraud activity in supporting positive outcomes and added value to Spelthorne and its residents. This enthusiasm and fight against fraud has over the course of time filtered through to some frontline service areas dealing with public fraud.

8.2   The Group Head of Corporate Governance may wish to provide further direction regarding future strategy, particularly the authority's preferred approach regarding investigations of benefit fraud. To date , Spelthorne have received some positive financial returns relating to Housing Benefits and cashable savings further to prosecution cases and other sanctions. However, there may now be an opportunity to review such arrangements.

9.   Equality and Diversity

9.1   Fraud, Bribery and Corruption risks should be considered in all areas of operation as fraudulent activity can result in Council services being diverted away from communities who need them.

10.   Sustainability/Climate Change Implications

10.1   There are none specifically to highlight.

11.   Timetable for implementation

11.1 There is no specific timetable as implementation of the strategy remains ongoing with annual review and reporting.

12. Contact

12.1 Punita Talwar, Internal Audit Manager. **P.Talwar@spelthorne.gov.uk**

Background papers: CIPFA Fraud and Corruption Tracker, national report 2020
CIPFA Fighting Fraud and Corruption locally 2020.

Appendices:
Appendix 1 – Track changes version of Counter Fraud, Bribery and Corruption Strategy (reviewed February 2023)
Appendix 2 – Clean version of Counter Fraud, Bribery and Corruption Strategy (February 2023)