



Chelmsford City Council Audit and Risk Committee

18th September 2024

Counter Fraud Annual Report 2023/24

Report by:

Audit Services Manager

Officer Contact:

Elizabeth Brooks, Audit Services Manager, elizabeth.brooks@chelmsford.gov.uk

Purpose

This report summarises the work the Counter Fraud work undertaken by Internal Audit during 2023 to date.

Recommendations

Committee are requested to note the content of the 2023/24 Counter Fraud Annual Report.

1. Introduction

- 1.1. The Council's approach to counter-fraud was revised and refreshed in 2022, with responsibility moving to the Audit Services Manager, including the production of a new Counter Fraud Strategy to ensure it is in line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally.
- 1.2. This report summarises the work the Counter Fraud work undertaken by Internal Audit during 2023 to date to deliver this strategy and manage the Council's risk of fraud.

2. Conclusion

The Counter Fraud Annual Report 2023/24 is attached for Audit & Risk Committee to note.

List of appendices: Counter Fraud Annual Report 2023/24

Background papers: None

Corporate Implications:

Legal/Constitutional: Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs. Under the Accounts and Audit (England) Regulations 2015, the Council's accounting control systems must include measures to enable the prevention and detection of fraud. The Council's Monitoring Officer is responsible under Section 5 of the Local Government and Housing Act 1989, to guard against, inter alia, illegality, impropriety and maladministration in the Council's affairs. The Bribery Act 2010 sets out the offence which can be committed by organisations which fail to prevent persons associated with them from committing bribery on their behalf. The Economic Crime and Transparency Act 2023 sets out the 'Failure to Prevent Fraud' offence.

Financial: Failure to have appropriate arrangements to prevent and detect fraud and manage the Council's risk of fraud puts the Council's financial management in a weakened position and therefore increases the risk of failing to deliver Our Chelmsford Our Plan.

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: Fraud has been identified as a Principal Risk. The FRCA is consistent with the wider corporate risk management framework.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: Management Team received the Counter Fraud Annual Report in September 2024.

Relevant Policies and Strategies: None

Internal Audit Counter Fraud Annual Report 2023-24

1. Purpose of this report

1.1. This report summarises the Counter Fraud work undertaken during 2023 to date.

2. Delivering the Council's Counter Fraud Strategy

2.1. The Council's approach to counter-fraud was revised and refreshed in 2022, with responsibility moving to the Audit Services Manager, including the production of a new Counter Fraud Strategy to ensure it is in line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally.

2.2. The 2022 Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption. Actions required to deliver and implement the Strategy are set out in a corresponding action plan.

2.3. Actions Completed to date:

a) **Updating the Council's Fraud Risk Register and undertaking a role-based Bribery and Corruption risk assessment**

The Council has already identified Fraud as a risk in its Principal Risk Register (PRR 005) and has developed a detailed Fraud Risk and Control Assessment (FRCA), breaking down the Council's overall fraud risk into 20 risk areas/categories (see Appendix A). These are defined predominantly by considering CIPFA's annual Counter Fraud and Corruption Tracker Survey (CFACT) and Fighting Fraud and Corruption Locally (FFCL), and then adapted to suit the Council's circumstances.

The existing anti-fraud controls in place against each risk have been re-assessed in order to provide a current and more accurate risk rating, taking into account the independent assurance provided by relevant Internal Audit assignments mapped against the controls identified.

The assessment also considers new and emerging fraud risks and has informed the Internal Audit planning process, ensuring that Internal Audit efforts in assessing anti-fraud controls and/or proactive anti-fraud reviews are directed to the highest risk areas.

In addition, a separate Anti-Bribery and Corruption role-based risk assessment has been developed to identify the roles in the Council most at risk of bribery and corruption by considering levels of seniority, budgetary responsibility, influences over procurement arrangements and the general nature of their duties (e.g., access to information and data, influence over policy decisions etc.). These roles can be monitored to ensure transparency over decisions, and any conflicts or failures to disclose are managed appropriately (which will be independently assessed by an Internal Audit review of Conflict of Interests in 2024) and also appropriate training can be directed/targeted according to the level of risk.

b) **Producing a revised Fraud Response Plan aligned to the new Counter Fraud and Corruption Strategy**

The Council's refreshed Fraud Response Plan outlines how allegations of fraud/wrongdoing should be handled, however they are raised. The Fraud Response Plan sets out the framework for escalation, investigation and reporting outcomes to ensure that issues raised are handled consistently.

A separate Prevention of Money Laundering Policy is also included within the Fraud Response Plan as Anti-Money Laundering legislation has its own specific procedural and reporting requirements.

In addition, the audit team plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls and emerging risks. Any suspicion of fraud will be handled by the team in line with Council's fraud response plan.

c) Reviewing the Council's Whistleblowing Policy

The Council's Whistleblowing Policy is in place to enable concerns to be reported that relate to any unethical or unprofessional behaviour within the Council or by its contractors and suppliers. The Council has appointed The Director of Corporate Services as its designated Whistleblowing Officer. The Legal and Democratic Services Manager and the HR Service Manager are responsible for dealing with reported cases in the first instance as deputies.

The Legal and Democratic Services Manager undertook a review of the Whistleblowing Policy in 2023 and reported the outcome to Governance Committee to establish whether changes are necessary to ensure the Whistleblowing Policy is compliant with legal requirements. It was reported that some minor updates are necessary but otherwise the current policy is compliant and goes further than minimum legal requirements. There is potential for further legislative changes to be made in this area and the policy would be further reviewed at that stage.

d) Developing and refreshing training and awareness activities for staff and Members to underpin an understanding of anti-fraud and corruption responsibilities.

A training and awareness programme covering Whistleblowing and Anti-bribery and Corruption is currently being rolled out across the Council with all PC based staff expected to complete the modules by November 2024. These training modules will provide a good basis of understanding and a good opportunity to publicise the Council's refreshed suite of Counter Fraud documents and remind all staff of their role and responsibility in preventing, detecting and reporting any suspected theft, fraud, bribery or corruption, which forms a key part of the Council's Counter Fraud and Corruption Strategy. This will also be extended to Councillors and non PC-based staff during 2024. Going forward, the programme will be used for all new starters and Members as part of their mandatory induction training.

e) Complying with NFI and Transparency Code

The National Fraud Initiative (NFI) is a bi-annual exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council is required to submit data to National Fraud Initiative on a regular basis. The next major exercise is due to take place in October 2024.

A NFI Protocol has been developed to ensure we are maximising the benefits of the exercises and participating in the most efficient manner.

The Council also participates in the Pan Essex Counter Fraud Data Matching System. This Counter Fraud Matching System is primarily used to identify Council Tax related fraud across Essex, which is investigated by Compliance Officers within the Revenue Service.

In addition, fraud data which is required to be published annually in line with the Transparency Code has been updated and published on the Council’s website.

3. Managing the Risk of Fraud

3.1. The risk of fraud is monitored via the Council’s Principal Risk Register.

3.2. Several processes also assist Internal Audit in detecting potential fraudulent activity including:

- One of the criteria assessed when producing the risk-based annual audit plan is the risk of fraud as per the Council’s Fraud Risk Register. In addition, all individual reviews are aligned to the Council’s Fraud Risk Register to independently assess anti-fraud controls in place.
- Data Analytics were used in 2023/24 to detect any anomalies with Accounts Payable with a specific focus on anti-fraud tests.
- Reviews of Council processes/walk throughs etc should highlight any gaps in control and areas that are vulnerable to fraudulent activity.

3.3. Additionally, where concerns of fraud have been highlighted, investigations are carried out and review of the control framework is undertaken to identify any gaps in control, establishing any lessons learned and recommendations to assist with the design of controls.

4. Number and Types of Investigations

	No.	Notes
New allegations to IA:		
2022/23	4	
2023/24	10	
No. of cases subsequently closed	10	9 related to Housing allegations – all closed with no further action required. 1 alerted via NFI – investigation identified no fraud.
Fraud/Irregularity identified	4	Incidents related to Bank Details and Housing (as reported in detail to Audit and Risk Committee December 2022) and Theft and False Representation (see below)

4.1. The investigation and advisory activity completed by Internal Audit in relation to the identified fraud incidents above is summarised as follows:

- **Theft** - as reported in detail to Audit and Risk Committee in December 2023. Additionally, a wider review of the current control framework was undertaken by Internal Audit.
- **False Representation** – referred to relevant authorities, including Action Fraud. An audit review of Safer Recruitment was completed in 2023/24 to assess the controls in place for the Council’s pre-employment vetting procedures. No monetary loss.

Due to the confidential nature of these type of referrals, it is not appropriate to provide further details of the allegations in this report.

Extract from Fraud Risk Register:

Ref	Risk Title	Risk Event	Risk Score	Risk Rating
FRC 23_01	Data theft and other cyber crime	Data solicited or taken forcibly by external parties and/or used by insiders for personal gain, e.g., theft of personal data to perpetrate identify fraud.	18	Very High
FRC 23_02	Corporate property	Purchase, sale or letting of property at anything other than market value/rate; provision of services without charge	16	High
FRC 23_03	Social housing & tenancy	False applications, misallocation for personal gain, illegal subletting, secondary home use/abandonment, Right to Buy (indirect risk impacting local housing supply)	16	High
FRC 23_04	Procurement and contracting	Collusion to distort fair an open competition, collusion between bidders, submission of false documents for payment, split contracts, collusion with contractors, post-award contract management etc.	14	High
FRC 23_05	Decision-making	Corruption including bribery and improper influence, failure to declare conflicts/gifts, suppressing or providing false information to sway decisions or affect outcome	14	High
FRC 23_06	Payment fraud	Diversion of payments, internally or following false requests (often cyber-enabled)	14	High
FRC 23_07	Payroll and expenses	False entries (e.g., ghost employees), inflation of payments, false claims for expenses and overtime, abuse of absence policies, IR35	14	High
FRC 23_08	Theft	Cash and equivalents e.g. funds via procurement cards and other assets for resale or personal use, including IT equipment, stores, fuel	14	High
FRC 23_09	Recruitment	False applications and identity fraud	14	High
FRC 23_010	Manipulation of data/ false accounting	Omitting or making misleading, false or deceptive entries (e.g. performance, financial data etc.)	13	High
FRC 23_011	Income collection fraud – other	Abuse of payment card data; invalid discount or other reduction in fees, invalid cancellation or refunds or write offs; fraudulently avoiding payment of debts	9	Medium
FRC 23_012	No recourse to public funds	False eligibility for housing allocation, homelessness support, housing benefit, council tax support	9	Medium
FRC 23_013	Money laundering	Exchanging money or assets that were obtained criminally for money or other assets that are 'clean'.	9	Medium
FRC 23_014	Misuse of Council assets	Use of Council assets for personal gain at detriment to the Council (e.g. vehicles, buildings, parking spaces)	9	Medium
FRC 23_015	Housing Benefit	False applications, including undeclared income or partners	7	Medium
FRC 23_016	Non-domestic rates	Abuse of exemptions, discounts and reliefs, unlisted, vacant, extended premises, refund scams	7	Medium

Ref	Risk Title	Risk Event	Risk Score	Risk Rating
FRC 23_017	Council tax	Abuse of local council tax reduction support, single person and other discounts, refund scams, failure to register (Rising 18's)	7	Medium
FRC 23_018	Grants Received and Payable	False claims to secure a grant or demonstrate terms may have been met, diversion of funds, abuse of position to award grants	7	Medium
FRC 23_019	Insurance claims	False or exaggerated claims (esp. personal injury)	7	Medium
FRC 23_020	Voting fraud	Fraudulent acts by voters, canvassers, poll clerks and officers, and/or count staff	3	Low

Counter Fraud Strategy Action Plan

COMPLETED ACTIONS

Area	Action Ref	Actions	Status
Fraud Risk Register/ABC Assessment	G2/A1	Assess Fraud and Corruption Risks.	Done - ongoing
CF Annual Report	G3	Present a regular report to Management Team and Audit & Risk Committee to compare the Council's progress against FFCL and Counter Fraud and Corruption Strategy	Done
CF Annual Report	G4	Management Team and Audit & Risk Committee review regular reports to ensure that the Counter Fraud and Corruption Strategy is appropriate in terms of its fraud risk and resources.	Done
Reporting	G5	Scrutinise weaknesses revealed by instances of proven fraud and corruption and feed back to departments to fraud proof systems.	Ongoing
Fraud Risk Register/ABC Assessment	PRE1.2	The roles within the Council most at risk of bribery and corruption will be identified and risk assessed by considering levels of seniority, budgetary responsibility, influences over procurement arrangements and the general nature of their duties.	Done
Reporting	PRE1.6	Independent assurance on the effectiveness of the governance, risk management and control environment relating to fraud and corruption to be provided by Internal Audit.	Ongoing
Other	PRE2.1	Review of Safer Recruitment procedures to ensure they mitigate fraud and corruption risks.	Done
Other	PRE2.3	Written agreements and contracts will provide references to the Bribery Act 2010 and the Council's Counter Fraud and Corruption Strategy and the expectation that they will operate at all times in accordance with such policy.	Done
Fraud Response Plan/WB	PRE3	Ensure that there is a zero-tolerance approach to fraud and corruption and independent whistle-blowing policy	Done
Fraud Response Plan/WB	PRE5	Ensure the fraud response plan covers all areas of counter fraud work.	Done
NFI	PRE6.1	Produce NFI Operations Protocol.	Done
CF Annual Report	PU1	Transparency Code and NFI statistics will be collated annually and reported to Management Team and Audit & Risk Committee	Done
Pro-active Fraud Plan	PU2.1	Internal Audit will align their Internal Audit Plan with Fraud Risk Assessment	Done
Pro-active Fraud Plan	PU2.2	Individual audit scopes will consider the Fraud Risk assessment and consider the prevention and detection of fraud.	Done
Skills and Resource Analysis	PU3	Collaborating with other Council services and external enforcement agencies, encouraging a corporate approach and co-location of enforcement activity	Done

Area	Action Ref	Actions	Status
Data Analytics	PU4	Internal Audit to consider use of data analytics in its key financial systems review and other counter fraud work where applicable.	Done
Training and Awareness	PU5	Ensure that there are professionally trained and accredited staff for counter fraud work, with adequate knowledge in all areas of the Council and the counter fraud team has access to specialist staff for surveillance, computer forensics, asset recovery and financial investigations where required.	Done
Skills and Resource Analysis	PRO1	Assess fraud resources proportionately to the risk the Council faces and are adequately resourced.	Done
Pro-active Fraud Plan	PRO2	Develop a fraud plan which is agreed by Management Team and Audit & Risk Committee, reflecting resources mapped to risks and arrangements for reporting outcomes (included within Audit Plan).	Done

TO DO

Area	Action Ref	Actions	Status	Timeframe
CF Strategy Comms to include:	G1	Publish Counter Fraud Strategy on Internet and Intranet	To do	September 2024 (to coincide with wider training rollout)
CF Strategy Comms to include:	PRE1.1	Remind all staff and Members of their role and responsibility in preventing and detecting fraud through promotion of the Counter Fraud and Corruption Strategy.	To do	September 2024 (to coincide with wider training rollout)
CF Strategy Comms to include:	PRE1.3	Remind service managers of their responsibility in monitoring these roles to ensure transparency over decision, and any conflicts or failures to disclose are managed appropriately.	To do	September 2024 (to coincide with wider training rollout)
CF Strategy Comms to include:	PRE1.5	Remind service managers of their responsibility for establishing and supporting an anti-fraud culture in their services, ensuring all their team members are aware of relevant policies and procedures relating to anti-fraud and bribery, code of conduct etc and adopting a robust control environment, including ensuring any internal audit recommendations are implemented promptly through inclusion in service plans to be monitored and actions reported locally.	To do	September 2024 (to coincide with wider training rollout)
CF Strategy Comms to include:	PRE2.2	Remind service managers of their responsibility for undertaking due diligence to evaluate the background, experience and reputation of business partners.	To do	September 2024 (to coincide with wider training rollout)
CF Strategy Comms to include:	PRE3.4	Promote awareness of new Policy internally and externally.	To do	September 2024 (to coincide with

Area	Action Ref	Actions	Status	Timeframe
				wider training rollout)
CF Strategy Comms to include:	PRE4	Remind service managers that new policies, procedures, strategies etc that may be connected to a fraud and/or corruption risk should be reviewed by the CGG for comments/amendments and to inform the Counter Fraud Risk Register.	To do	September 2024 (to coincide with wider training rollout)
CF Strategy Comms to include:	PRE5.4	Promote awareness of new Fraud Response Plan internally and externally.	To do	September 2024 (to coincide with wider training rollout)
Training and Awareness	PRE1.4	Develop training and awareness activities for new staff and Members (through induction) and existing staff and Members (through refresher training) to underpin understanding of anti-fraud and corruption responsibilities.	To do	WIP – due to be completed December 2024
Training and Awareness	PRE3.5	Align training to Counter Fraud Strategy/WB Policy/Fraud Response Plan and promote refresher training	To do	WIP – due to be completed December 2024
Training and Awareness	PU5.2	Training undertaken as required or identified skills gap to be considered for inclusion in the fraud risk assessment.	To do	WIP. Monitor training take-up
NFI	PRE6.2	Review NFI outcomes 2024 and update Fraud RR	To do	Q4 2024-25