

# Audit and Risk Committee

26 July 2021

<b>Report Title</b>	Audit Services – Counter Fraud Update	
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<b>Report to be/has been considered by</b>	Not applicable	

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## Recommendation for noting:

The Audit and Risk Committee is asked to note:

1. The contents of the latest Audit Services Counter Fraud Update.

## **1.0 Purpose**

- 1.1 The purpose of this report is to provide Members with an update on current counter fraud activities undertaken by Audit Services.

## **2.0 Background**

- 2.1 The Counter Fraud Unit was set up within Audit Services, in response to the increased emphasis being placed upon both fraud prevention and detection by the Ministry of Housing, Communities and Local Government.

## **3.0 Progress, options, discussion, etc.**

- 3.1 At the last meeting of the Audit and Risk Committee in March 2021, it was agreed that regular updates on the progress the Council was making in tackling fraud would continue to be brought before the Committee.

## **4.0 Financial implications**

- 4.1 There are no financial implications arising from the recommendation in this report.  
[GE/14072021/V]

## **5.0 Legal implications**

- 5.1 There are no direct legal implications arising from the recommendations in this report.  
[TC/16072021/L]

## **7.0 All other implications**

- 7.1 There are no other implications arising from the recommendations in this report.

## **8.0 Schedule of background papers**

- 8.1 There is no schedule of background papers.



# Audit Services Counter Fraud Report @ July 2021

## 1 *Introduction*

The counter fraud agenda is one that continues to hold significant prominence from Central Government who are promoting a wide range of counter fraud activities. The purpose of this report is to bring the Audit and Risk Committee up to date on the counter-fraud activities undertaken by the Counter Fraud Unit within Audit Services.

The Council is committed to creating and maintaining an environment where fraud, corruption and bribery will not be tolerated. This message is made clear within the Authority's Anti-Fraud and Corruption Policy, which states: "The Council operates a zero tolerance on fraud, corruption and bribery whereby all instances will be investigated, and the perpetrator(s) will be dealt with in accordance with established policies. Action will be taken to recover all monies stolen from the Council."

## 2 *The Counter Fraud Team*

The Counter Fraud Team, which sits within Audit Services, is continuing to develop and lead in raising fraud awareness across the Council and in promoting an anti-fraud culture. The team carries out investigations into areas of suspected or reported fraudulent activity and organises a series of Council wide pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity. The team maintains the Council's fraud risk register, implements the counter fraud plan and leads on the Cabinet Office's National Fraud Initiative (NFI) exercise.

The team also provide a tenancy fraud investigation service to Wolverhampton Homes under a service level agreement.

During the Covid-19 Pandemic members of the Counter Fraud Team in conjunction with colleagues from Finance, Revenues and Benefits, and Audit have supported the due diligence activities undertaken before and after the award of the various support grants introduced by Central Government to ensure the risk of fraud is minimised.

## 3 *Counter Fraud Update*

### *Counter Fraud Plan*

The latest status of progress against the counter fraud plan is shown at Appendix 1

### *Fraud Risk Register*

The Counter Fraud Team maintains the Council's fraud risk register. The register is used to help identify areas for testing and to inform future audit assurance plans by focusing on the areas with the 'highest' risk of fraud. The latest fraud risk register is included at Appendix 2.

### *Covid-19 Business Support Grants*

To support Local Authorities in the administration of these grants, the Department for Energy & Industrial Strategy (BEIS) Counter Fraud Function developed a toolkit that included a range of measures that could be used to reduce the risk of fraud and error in these schemes. Where appropriate these tools were used by the Council when assessing each application and prior to payment.

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Type of applicant:	Upfront low-friction controls										Post-event assurance															
	Existing data sets	Data specification	Clean back agreements	Fraud clause	Privacy notice	GOVUK Verify	Spotlight	AppCheck	Account verification	Existing bank account data	To establish eligibility using existing data sets	To capture the data fields for upfront controls / and post-event assurance	In applications, disclaimers or contracts	In applications, disclaimers or contracts	In applications, disclaimers or contracts	To identify and verify the individual	To undertake due diligence on the applicant	To undertake due diligence on the applicant	To pay new bank accounts	To pay long standing bank accounts	To confirm the identity of the individual (post-payment)	To detect fraud (post-payment)	To confirm payees / trace funds	To undertake due diligence on the applicant	To detect fraud in residual risk areas (bespoke to each scheme)	
Individuals	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗
Businesses	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗
Charities	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗

While BEIS placed an emphasis on speed of payment the Council completed due diligence checks in accordance with the BEIS Counter Fraud toolkit. These checks were designed to reduce the risk of fraud and error in the grant schemes. BEIS also agreed to stand behind any erroneous grant payments subject to Local Authorities taking reasonable and practicable measures to minimise the risk of errors and/or fraud, avoid making payments to those not entitled and to take reasonable and practicable steps to recover any over-payments

### Business Grants Paid April to September 2020

The total number of Small Business Grants, Retail, Leisure and Hospitality Grants and Discretionary Grants paid was:

Small Business Grants paid	3,255	£32,550,000
Retail, Hospitality and Leisure Grants paid	724	£12,620,000
Discretionary Grants paid	296	£2,275,000
<b>Total number of grants paid</b>	<b>4,275</b>	<b>£47,445,000</b>

Following a series of post payments checks on the above 4,275 grants, invoices were raised to recover payment for ineligibility, as follows:

Small Business Grants found to be ineligible and an invoice raised for recovery	20	£200,000
Retail, Hospitality and Leisure Grants found to be ineligible and an invoice raised for recovery	6	£120,000
Discretionary Grants	-	£0
<b>Total grants where invoices were raised for recovery</b>	<b>26</b>	<b>£320,000</b>

Of the above 26 invoices six grants have been fully repaid and a further eight part repaid totalling a recovery of £100,000. Recovery action for the remaining invoices is continuing and further progress will be reported to future meeting of this committee.

As a part of the grant post payment assurance process, BEIS has assessed the adequacy of the due diligence checks completed by the Council when awarding grants. This involved BEIS identifying 15 randomly selected grants, five from each of the Small Business, Retail, Leisure and Hospitality and Discretionary Grants and the Council providing detailed evidence of the checks completed in each case.

### **Business Grants Paid October 2020 onwards**

Since October 2020 BEIS has introduced a series of additional local and national restrictions support grants designed to provide financial support to businesses and individuals affected by the ongoing Covid-19 measures. These grants are subject to similar due diligence checks to those applied to the previous rounds of grants and this process will remain a significant piece of work. As at mid July 2021 the following grants had been awarded.

<b>Total number of grants paid (all types)</b>	<b>10,281</b>	<b>£31,336,000</b>
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To assist with managing the grants awarded since October 2020 the Council has used third party software to manage the application, checking and award process.

Following a series of post payments checks on the above 10,281 grants paid, invoices were raised to recover payment for ineligibility, as follows:

<b>Total Local and National Restrictions Support Grants (all types)</b>	<b>9</b>	<b>£37,200</b>
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Of the above 9 invoices one grant has been fully repaid and a further one part repaid totalling a recovery of £4,200. Recovery action for the remaining invoices is continuing and further progress will be reported to future meeting of this committee.

### **Reporting Potentially Fraudulent Grants**

The Council will continue to complete pre and post payment checks for all grants awarded and take recovery action where necessary. Further action may also be required due to fraudulent activity. It is anticipated that BEIS will provide the Council with further advice and guidance on any recovery or legal action required to be taken.

All grants where an invoice has been raised to recover the payment, plus several other applications where a payment was not made but potential fraud was suspected, have been reported to the National Anti-Fraud Network (NAFN). BEIS has appointed NAFN to collate details of all potentially fraudulent activity in relation to the Covid-19 Business Grants. The information is to be used by Crime Agencies to identify potential criminal activity and organised crime.



### *National Fraud Initiative Exercise 2020/21*

The Counter Fraud Unit co-ordinates the investigation of matches identified by the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Where matches are identified, the ensuing investigations may detect instances of fraud, over or underpayments, and other errors. A match does not automatically mean there is a fraud. Often there is another explanation for a data match that prompts bodies to update their records and to improve their systems. The NFI exercise also provides assurance to management that systems are working effectively where fraud and error is not present.

The latest NFI exercise commenced in January 2021 and a total of 10,021 matches have been released. Work is progressing to investigate the various categories of matches based on those deemed to be the highest risk. Over 1,000 matches have been processed and closed, this included almost 300 Blue Badges where the death of the holder had not previously been notified to the Council. These badges have now been cancelled. As further matches are processed details of the progress made will be brought before the Committee.

### *Counter Fraud Team - Tenancy Fraud*

During the Covid-19 pandemic the Counter Fraud Team has continued to provide a Tenancy Fraud Service. Potential fraud referrals have been recorded and investigated where possible. Due to the restrictions imposed by the lockdown and social distancing measures it has not been possible to visit premises or to interview suspects. There is also a restriction on the ability to evict tenants from a property

As the Covid 19 restrictions are eased investigations into potential tenancy fraud are being progressed and the results will be reported to future meetings of this committee.

### *National Anti-Fraud Network Intelligence Notifications*

The National Anti-Fraud Network (NAFN) issues regular alerts which provide information on fraud attempts, trends and emerging threats. The information provided in the alerts has been notified to NAFN by other local authorities from across the country. These alerts are checked to the Council's systems to verify whether there have been any instances at Wolverhampton. Alerts which either involve suppliers used by the Council or are applicable to all Councils, are notified to appropriate sections of the Council. The most common alerts relate to Covid-19 Business Rates Relief Grant frauds, Bank Mandate fraud, Council Tax Refund fraud, cyber fraud including ransomware and email interception.

### *Midland Fraud Group*

This group consists of fraud officers from across the Midland's local authorities. The purpose of the group is to identify and discuss the outcome of initiatives being used to tackle fraud. At the last meeting in July 2021 discussions were held on:

- Post verification of Covid-19 grants
- Right to Buy applications
- Business Prosecutions and;
- Other cases of interest.

Counter Fraud Plan Update

Issue	Action	Timescale
Raising counter fraud awareness across the Council	Develop and deliver Fraud Awareness seminars	Fraud based training provided Autumn 2019. Next round of training to be planned
	Develop on-line fraud training for staff.	To be refreshed Summer 2021
	Work with Workforce Development to develop and promote fraud training.	Fraud seminars and surgeries promoted through City People  On-going use of online training package
	Establish measures for assessing the level of employee fraud awareness.	Summer 2021
	Hold fraud surgeries to enable staff to report areas of suspected fraud.	Fraud surgeries planned for Autumn 2021
	Use various forms of media to promote fraud awareness across the Council including City People, the intranet and the internet.	Fraud seminars and surgeries will be promoted through City People
	Work closely with Wolverhampton Homes and seek opportunities to promote joint fraud awareness.	On-going
Work with national, regional and local networks to identify current fraud risks and initiatives.	Maintain membership of the National Anti-Fraud Network (NAFN).	On-going
	Participate in the Cabinet Office's National Fraud Initiative (NFI) data matching exercises. Acting as key contact for the Council, the West Midlands Pension Scheme and Wolverhampton Homes.	On-going. Latest exercise commenced January 2021
	Complete the annual CIPFA fraud survey.	CIPFA Survey last completed Aug 2020
	Investigate opportunities to develop the use of NFI real time and near real time data matching.	Used for additional Single Person Discount data match
	Participate in CIPFA's technical information service.	On-going
	Maintain membership of the Midlands Fraud Group.	On-going – last meeting July 2021 next meeting October 2021
	Attend external fraud seminars and courses.	Tackling Fraud Across the Public Sector – November 2020  Annual Counter Fraud and Forensic Accounting



Issue	Action	Timescale
		<p>Conference June 2021</p> <p>Midland Fraud Forum Conference July 2021</p>
Assess the counter fraud strategy against best practice	Complete national fraud self-assessments, for example:	
	<ul style="list-style-type: none"> <li>• New CIPFA Code of Practice</li> </ul>	June 2015 (the last time required)
	<ul style="list-style-type: none"> <li>• CIPFA Counter Fraud Tracker Survey</li> </ul>	Annually
	<ul style="list-style-type: none"> <li>• The former Department for Communities and Local Government – ten actions to tackle fraud against the Council.</li> </ul>	On-going
	<ul style="list-style-type: none"> <li>• Consideration of fraud resilience toolkit</li> </ul>	On-going
Identify and rank the fraud risks facing the Council	Manage the Council's fraud risk register to ensure key risks are identified and prioritised.	On-going
	Develop measures of potential fraud risk to help justify investment in counter fraud initiatives.	On-going
	Seek opportunities to integrate the fraud risk register with other corporate risk registers and also the Audit Services Audit Plan	On-going
Work with other fraud investigation teams at the Council	Develop good communication links between the Counter Fraud Unit, Wolverhampton Homes, and Audit Services.	The Council's Counter Fraud Team provide a tenancy fraud service to Wolverhampton Homes.
Work with external organisations to share knowledge about frauds?	Establish formal joint working relationships with external bodies, for example Police, Health Service and Immigration Enforcement.	On-going
Participate in external initiatives and address requests for information	Implement industry best practice as identified in reports produced by external bodies, for example; CIPFA's Annual Fraud Tracker Survey and the National Fraud Initiative report.	Annual/on-going
	Encourage Service Areas to participate in initiatives to identify cases of fraud.	Corporate Fraud Group established
	Look for opportunities to use analytical techniques such as data matching to identify frauds perpetrated across bodies, for example other Councils.	On-going
	Undertake a programme of proactive target testing.	On-going
	Respond to external requests for information or requests to take part in national initiatives.	On-going
All cases of reported fraud are identified, recorded and	Work with Service Areas to develop methods of recognising, measuring and recording all forms of fraud.	Corporate Fraud Group established

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Issue	Action	Timescale
investigated in accordance with best practice and professional standards.	Manage and co-ordinate fraud investigations across the Council.	As reported back to the Audit and Risk Committee on a quarterly basis
	Implement and update the Council's portfolio of fraud related policies in response to changes in legislation.	Latest version will be presented to the Audit and Risk Committee in Autumn 2021
	Where appropriate take sanctions against the perpetrators of fraud either internally in conjunction with Human Resources and Legal Services or externally by the Police.	On-going
Ensure responsibility for counter fraud activities is included in Partnership agreements with external bodies.	Embed responsibility for counter fraud activities in partnership agreements with the Council's strategic partners.	On-going
	Partnership agreements to include the Council's rights of access to conduct fraud investigations.	On-going
Provide the opportunity for employees and members of the public to report suspected fraud.	Manage and promote the Whistleblowing Hotline and record all reported allegations of fraud.	City People article – planned for Autumn 2021
	Promote and hold fraud surgeries that provide the opportunity for staff to discuss any potentially fraudulent activity at the Council.	Fraud surgeries planned for Autumn 2021
	Seek other methods of engaging with employees and the public to report fraud.	On-going – for example through the Council's internet site
	Where appropriate ensure allegations are investigated and appropriate action taken.	On-going
	Work with and develop procedures for carrying out investigations with other service areas for example Human Resources, Legal Services and Wolverhampton Homes.	On-going
Inform members and senior officers of counter fraud activities.	Report quarterly to the Audit Committee on the implementation of Counter Fraud initiatives and the progress and outcome of fraud investigations.	On-going

*Fraud Risk Register @ July 2021*

Themes	Potential fraud type	Risk rating
Housing Tenancy	Subletting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, right to buy. This risk is managed by Wolverhampton Homes.	Red
Council Tax	Fraudulently claiming for discounts and exemptions such as the single person's discount and Local Council Tax Support Schemes.	Red
Personal Budgets	Falsely claiming that care is needed, carers using direct payments for personal gain, carers continuing to receive direct payments after a person dies, duplicate applications submitted to multiple Councils.	Red
Cyber Security	Using technology as a tool to commit acts of fraud – this currently has a very high profile and is an ever-increasing area susceptible to fraud	Red
Covid-19	The Council is open to fraud and misappropriation due to changes in legislation and the speed in which government support grants need to be processed.	Amber
Welfare Assistance	Fraudulent claims.	Amber
Procurement	Collusion (employees and bidders), false invoices, overcharging, inferior goods and services, duplicate invoices.	Amber
Business Rates	Evading payment, falsely claiming mandatory and discretionary rate relief, empty property exemption, charity status.	Amber
Payroll	'ghost' employees, expenses, claims, recruitment.	Amber
Blue Badge	Fraudulent applications use by others and continuing use after a person dies.	Amber
Electoral	Postal voting, canvassing.	Amber
Schools	School accounts, expenses, procurement, finance leases.	Amber
Bank Mandate Fraud	Fraudulent request for change of bank details (increased following a recent case).	Amber
Theft	Theft of Council assets including cash (increased following a recent case).	Amber
Insurance	Fraudulent and exaggerated claims.	Green
Manipulation of data	Amending financial records and performance information.	Green
Grants	False grant applications, failure to use for its intended purpose.	Green

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Bribery	Awarding of contracts, decision making.	Green
Money Laundering	Accepting payments from the proceeds of crime.	Green