2022

Fraud Risk Strategy

FRAUD RISK STRATEGY

COUNTER FRAUD AND ENFORCEMENT UNIT

Working in partnership with Councils and organisations across Gloucestershire and West Oxfordshire to prevent fraud and loss

Table of Contents

<h1 style="text-align:center; color:#9B1C1C; text-decoration:underline;">FRAUD RISK STRATEGY</h1>

Introduction

Fraud is now the most common crime in the UK and costs many billions of pounds every year to private companies, individuals and to the public purse. The impact of fraud and related offences can be devastating. Impact ranges from unaffordable personal losses, suffered by vulnerable victims, to the ability of organisations to stay in business.

Although fraud is not an issue that any organisation wants to deal with, or possibly admit to, the reality is that most organisations will experience fraud to one degree or another; within Local Government it is widespread and pervasive. Surveys worldwide relating to fraud have found that the government and public administration sector was the second most represented sector, after banking and financial services within the private sector.

The Government estimates that fraud costs the public sector between £31bn and £53bn per year. Fraud in Local Government is estimated to account for around £2.1bn of this sum per year; this is money that could be better spent on the provision of services. The Councils and Publica, which make up the Counter Fraud and Enforcement Unit Partnership, have a duty to ensure they protect public money from the risk of fraud and whilst it is impossible to eliminate all fraud, must have a sufficiently robust control framework in place to reduce these risks.

Local Authorities have a responsibility to promote and develop high standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management. Local Authorities face significant challenges in relation to fraud mitigation whilst providing front line services and protecting large vulnerable groups with ever decreasing resources and income streams.

In compliance with the *Government Functional Standard GovS013: Counter Fraud* this strategy sets the direction and desired outcomes for the partnership.

An important part of this approach is the anti-fraud culture and practices which are adopted to advise and guide members and staff on the approach to the serious issues of fraud and corruption. This document provides an overview of our policy in this matter and links to the Counter Fraud and Enforcement Unit response which works to prevent, detect and deter fraud and corruption.

Key Definitions

Bribery   Bribery is defined as offering, promising, agreeing to receive or giving of a financial or other advantage to induce or reward improper functions or activities and/or the request or receipt of such an advantage.

FRAUD RISK STRATEGY

Corruption   For the purposes of this document, corruption in the public sector including Central and Local Government can be defined as the abuse of power by an official (or any employee entrusted to carry out the functions of government, including contractors) for personal gain.
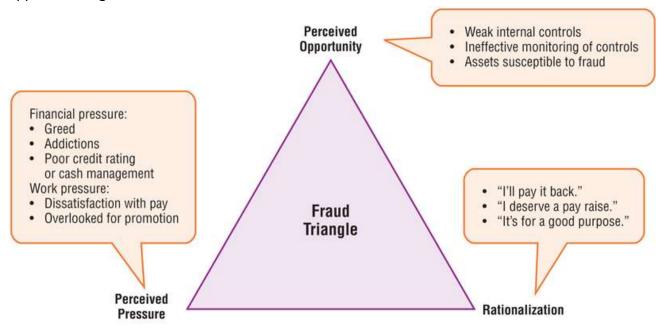
Fraud   The term 'Fraud' is used to define offences contrary to the Fraud Act 2006 based on false representation, dishonesty, financial gain or loss and associated offences, which include bribery and money laundering. Fraud essentially involves using deception to dishonestly make a personal gain for oneself and/or create a loss for another.

Why do people commit fraud?

The appeal of fraud is the perceived 'low risk / high reward' opportunities it presents. The offence can be committed with relative ease and at a distance from the victim and the authorities. Within the public sector, the lack of an identifiable victim only aids the fraudster further. Fraud may also be committed by serious organised crime groups who are capable of orchestrating large scale fraud across international boundaries, but also by otherwise law abiding individuals looking to make an opportunistic gain.

Perceived Opportunity
- Weak internal controls
- Ineffective monitoring of controls
- Assets susceptible to fraud

Financial pressure:
- Greed
- Addictions
- Poor credit rating or cash management
Work pressure:
- Dissatisfaction with pay
- Overlooked for promotion

Fraud Triangle

"I'll pay it back."
"I deserve a pay raise."
"It's for a good purpose."

Perceived Pressure

Rationalization

FRAUD RISK STRATEGY

The fraud triangle is the framework commonly used to explain the reason behind an individual's decision to commit fraud. This outlines three components that contribute to increasing the risk of fraud – opportunity, incentive and rationalization. These apply equally to any sector organisation and can form part of the risk management approach but there should be recognition that the opportunities and the incentives to commit fraud are wide ranging within Local Government.

Pressure/Motivation

In simple terms, motivation is typically based on either greed or need. Other causes cited include problems and pressures caused by debts and gambling. Many people are faced with the opportunity to commit fraud, and only a minority of the greedy and needy do so. Personality and temperament, including how frightened people are about the consequences of taking risks, play a role. Some people with good objective principles can be influenced or coerced by others or develop unaffordable habits, which tempts them to fraudulent activities. Others are tempted only when faced with financial ruin.
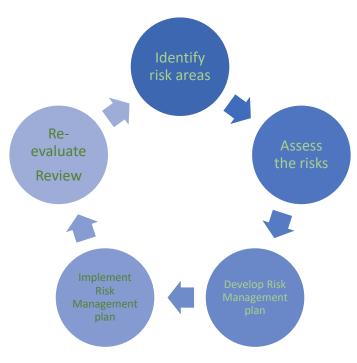
Opportunity

In terms of opportunity, fraud is more likely in organisations where there is a weak internal control system, poor security, little fear of exposure and likelihood of detection, or unclear policies with regard to acceptable behaviour. Research has shown that some employees are totally honest, some are totally dishonest, but that many are swayed by opportunity.

Rationalisation

Many people obey the law because they believe in it and/or they are afraid of being shamed or rejected by people they care about if they are caught. However, some people may be able to rationalise fraudulent actions as:

- Necessary – especially when done for the business

- Harmless – because the victim is large enough to absorb the impact, or is a faceless organisation

- Justified – because 'the victim deserved it' or 'because I was mistreated.'

Risk Management

Risk Management Cycle

Identifying the risk - Local Government fraud risk areas

The threat of fraud not only comes from the general public (external) for whom Local Authorities provide and administer many different services, but also employees and contractors (internal), employed in a wide range of roles across a breadth of service areas. Tax is synonymous with Local Authorities and it is therefore unsurprising that losses to tax fraud in this area are significantly higher than from fraud in other areas. The below list details some of the types of fraud/corruption that Local Authorities are susceptible to:

External High-Risk Areas

- Social Housing Tenancy Fraud (false applications, sub-letting for profit, right to buy fraud, abandonment, allocations)
- Council Tax Fraud (Discounts & Exemptions i.e. Council Tax Reduction Scheme (CTRS), Single persons discount)
- Business Rates (NNDR) Fraud (Fraudulent applications for exemptions & relief)
- Procurement, Purchasing and Contract Management Fraud (constantly changing environment and fraud can occur at any point throughout the cycle)

- Adult Social Care (care workers claiming money for time they have not worked, payments not being used to pay for care)
- Identity Fraud
- Blue Badge Scheme Abuse
- Grant Fraud
- Cyber Crime - Phishing Emails, Viruses, Payment Fraud (managed by ICT)
- Serious and Organised Crime (Licensing, contracts, Housing Right to buys, Cuckooing, online payment/payment card fraud)

Internal Fraud Risks

- Payroll Fraud
- Fraudulent claims for expenses and allowances
- Bribery, Corruption and Abuse of Position
- Failure to declare conflicts of interest
- Pre-employment fraud – provision of false information
- Misallocation of social housing to friends/family
- Procurement Fraud
- Theft
- Manipulation of Benefits systems, Grants or Council Tax accounts for personal gain
- Asset Misappropriation
- Misuse/Manipulation of Systems

Understandably, 'external' fraud poses a much greater risk to Local Authorities with Business Rates fraud identified as the largest growing fraud type in recent years. Other areas perceived to be of the greatest fraud risk to Local Authorities are in Procurement, Council Tax (CTax) 'Single Occupancy Discount' and adult social care (CIPFA – The Local Government Counter Fraud and Corruption Strategy).

Understanding and assessing the risk

Once risks have been identified, an assessment of possible impact and corresponding likelihood of occurrence should be made using consistent parameters that will enable the development of a prioritised risk analysis. The assessment of the impact of the risk should not simply take account of the financial impact but should also consider the organisation's viability and reputation, and recognise the political sensitivities involved.

FRAUD RISK STRATEGY

		Negligible / Insignificant 1	Minor 2	Moderate / Significant 3	Major 4	Critical 5
LIKELIHOOD (B)	Almost Certain / Very Likely 5	5	10	15	20	25
	Likely 4	4	8	12	16	20
	Possible / Feasible 3	3	6	9	12	15
	Unlikely / Slight 2	2	4	6	8	10
	Rare / Very Unlikely 1	1	2	3	4	5
		IMPACT RISKS (A)				

Risk Response Strategy

Strategies for responding to risk generally fall into one of the following categories:

- Risk Retention (e.g. choosing to accept small risks).

- Risk Avoidance (e.g. stopping use of certain products to avoid the risk to occurring).

- Risk Reduction (e.g. through implementing controls and procedures).

- Risk Transfer (e.g. contractual transfer of risk; transferring risks to insurers).

There is good assurance that the Partnership has an appropriate control framework in place to mitigate the risk of fraud. It is impossible to eliminate the risk completely and there are areas where continuous monitoring is required.

Anti-Fraud Strategy

Approach

The changing context in which Local Government services are delivered, the increasing risk of fraud by motivated offenders, reduced Local Authority resources and associated changes to existing local control frameworks together create a pressing need for a new approach to tackling fraud perpetrated against Local Government. Given the substantial financial losses to Local Authorities it was imperative a plan was put in place to combat fraud. In 2011, the first counter fraud strategy for Local Authorities was produced in the form of the 'Fighting Fraud and Corruption Locally' strategy (FFCL). The strategy was based on the following three principles:

- **Acknowledge** – Acknowledge and understand fraud risk.
- **Prevent** – Prevent and detect more fraud.
- **Pursue** – More robust in punishing fraud and the recovery of losses.

Acknowledge & Understand	Prevent & Detect	Pursue
• Assessing and understanding fraud risks • Committing to support and resource to tackling fraud • Maintaining a robust anti-fraud response	• Making better use of information & technology • Enhancing fraud controls and processes • Developing a more effective anti-fraud culture	• Prioritising fraud recovery and the use of civil sanctions • Developing capability and capacity to punish fraudsters • Collaborating with law enforcement

More recently a further two principles have been introduced:

- **Govern** – Setting the tone from the top and ensuring robust arrangements to ensure counter fraud and anti-corruption activities are embedded within the organisation.
- **Protect** – Protecting against serious and organised crime, protecting individuals from becoming victims and protecting against the harm fraud can do to the community. For Local Government, this includes protecting public funds, protecting the Local Authority against fraud and cyber-crime and itself from future frauds.

FRAUD RISK STRATEGY

These principles are underpinned by the following:

The strategy was a collaborative effort between Local Authorities and key stakeholders from across the fraud arena and was designed to assist Local Authorities understand their fraud risk, assist in developing and maintaining a culture in which fraud and corruption are understood to be unacceptable, and to provide a blueprint for a tougher response (CIPFA – The Local Government Counter Fraud and Corruption Strategy).

The framework for the Council's fraud and corruption control plan includes:

- Planning and resourcing
- Prevention
- Detection
- Response

The strategy has been designed to recognise the evolving and changing risks within the public sector. Unexpected events alter the service delivery landscape and also the type and level of associated fraud risks to both public sector finances and structures. For example, the Covid-19 pandemic led Local Authorities to implement wide scale home and remote working practices swiftly. For many these service delivery changes will be permanent and the associated risks relating to cyber security or staff work integrity must be addressed. Other risks identified during the pandemic – such as the increased requirement for urgent decision making and the financial risks associated with the Business Grant payments for example – may be time limited, but can still influence and inform ongoing systems and procedures meaning there is a continued need to ensure internal controls remain effective.

Planning and Resourcing

The Counter Fraud and Enforcement Unit (CFEU) is a corporate resource with annual work plans designed to promote awareness and deploy resource according to identified areas of weakness.

FRAUD RISK STRATEGY

This also allows the department to provide capacity for proactive and reactive investigations in the areas that have been highlighted as high-risk.

Service specific fraud risk reviews are to be completed and reviewed annually to help identify new and emerging risks and high risk areas that require more resource. This in turn informs the CFEU annual work plans, which together comprise the CFEU fraud response plan.

The levels of fraud, statistics and reliable information available informs risk management approaches. It can provide evidence for necessary internal controls in particular areas known to be high risk, support a change in culture and inform best practice. The CFEU provide quarterly reports to Corporate Management and bi-annual reports direct to Audit Committees detailing work streams and outcomes. This ensures Councillors are briefed in relation to fraud risk. By having a dedicated team collecting and recording this data, the partnership is ensuring a well-rounded risk management approach which is working to continuously review and improve internal controls.

The CFEU works closely with Internal Audit to identify internal control weaknesses and to ensure review and implementation of any necessary follow-up action.

Prevention

The CFEU is responsible for developing, reviewing, and updating the Counter Fraud and Anti-Corruption, Whistleblowing and Money Laundering Policies and for any procedures linked to counter fraud or criminal investigation.

The CFEU has targeted raising awareness and changing the culture of the organisations through online training and in person awareness sessions. In basic terms, public sector staff are more concerned about the provision of frontline services to the general public and less about financial losses and fraud. The team have worked hard to inform staff so that they have a better understanding of fraud risks and how best to mitigate them. Significantly, though with public bodies and the large scale diverse nature of them, it is important that any awareness training is relatable to the audience or individual staff member to gain maximum benefit.

The CFEU also introduced a revised and updated Whistle-Blowing Policy to support the fraud awareness session and ensure staff were confident in referring allegations of wrong doing to the team who specialise in protecting the identity of referral sources.

Work plans are developed annually in consultation with Internal Audit to include proactive fraud drives in high risk areas, deterrent activity and the resource for reactive case investigation work.

As Local Government continues its use of outsourcing, management should ensure that the contractors employed are aware to the principles of the Whistleblowing, Money Laundering and Counter Fraud and Anti-Corruption Policies.

FRAUD RISK STRATEGY

The partnership is committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its activities.

Detection

The CFEU provide trained and dedicated resource for departments in the following high risk areas:-

Council Tax Discounts: – Assistance with processing National Fraud Initiative data matching, specific fraud drives and reviews, sanctions and penalty application.

Council Tax Reduction Scheme: – Authorised Officers under the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 to investigate cases of fraud and apply criminal sanctions, and work jointly with the DWP.

National Non Domestic Rates: – Assistance with reviews on specific exemptions and reliefs, visiting high-risk properties and business types, assistance with tracing and cross-checking data.

Procurement: – Fraud drives relating to high risk areas, review of processes and paperwork to mitigate risk and improve control mechanisms; fraud awareness training for specific officers; advice on the impact of Serious and Organised Crime and how to develop controls.

Housing Allocation, Housing and Tenancy Frauds: – Regular reviews of housing waiting lists, dedicated Housing Investigation Officers, work with Registered Social Landlords / Housing Providers, Authorised Officers under the Prevention of Social Housing Fraud Act, the ability to prepare cases for both criminal and civil action.
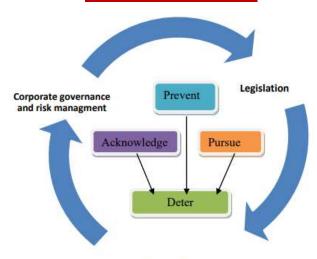
Internal Reactive Cases: – Undertaking disciplinary investigations involving allegations of staff or member corruption, fraud or other serious misconduct.

Annual Work Plans: - focussing on high risk areas nationally, or locally identified areas of risk according to the local demographic.

Fraud Risk Registers: – Development of risk registers for the Councils / Publica as a whole and for individual service areas. These are to be continually reviewed and updated.

Response

To provide both detection and an appropriate response, the Council's dedicated Counter Fraud and Enforcement Unit is staffed by qualified Investigation & Intelligence Support Officers with a commitment to undertaking criminal prosecutions.

FRAUD RISK STRATEGY

The Council websites have a dedicated counter fraud page with information on how to make referrals and a summary of the work the Unit undertakes. This includes links to the relevant Policies which the individual Councils adhere to.

Internally departments can refer direct to the CFEU, and where necessary can make referrals in confidence. The CFEU works directly for the Chief Finance Officer and can liaise with any staff necessary without alerting specific individuals. In relation to sensitive whistleblowing referrals the CFEU can undertake fully confidential operations with limited notification.

The CFEU works across its partners and the wider criminal enforcement community to share good practice, develop knowledge and improve detection and prevention. Where appropriate the CFEU will refer matters to the Police or body with relevant jurisdiction.

The CFEU work to ensure that fraud awareness is maintained through regular training for staff and Members, reporting successful court cases in the media, and communicating positive outcomes with staff.

Review

Following any proactive drive or fraud investigation, the work is subject to review and management oversight. Local Authorities have both Internal and External Audit functions and their activities, especially in key control areas, mean that they are more adaptive to the changing risk environment and are able to continuously monitor and improve any deficiencies. The CFEU and Internal Audit meet quarterly to discuss any low assurance areas and/or emerging fraud risk areas which can then be added to the work plans. Where an investigation has taken place, any areas of risk or poor control identified will be reported to the appropriate manager with recommendations for remedial action. In addition, where fraud is found during any audit work a referral is issued to the CFEU, and conversely where the CFEU has identified concerns, a report is issued to inform the Internal Audit Plan. The CFEU will also provide a report to the appropriate manager with recommendations when areas of weakness or risk are recognised, Internal Audit can also consider these recommendations and whether a follow-up Audit is required.

FRAUD RISK STRATEGY

Policies are reviewed regularly to ensure they are relevant, in line with current good practice and legislatively up to date. Any update training this necessitates is then provided.

Service specific risk registers are reviewed regularly with the service area manager, and CFEU annual work plans are overseen by Corporate Management.

ANNEX 1   - Fighting Fraud and Corruption Locally Checklist

ANNEX 2 - Government Functional Standard – GovS 013: Counter Fraud Checklist