

Fraud Update Mid-Year 2023/24

Audit & Scrutiny Committee

Report of: Chief Finance Officer (Section 151)

Purpose: For noting

Publication status: Unrestricted

Wards affected: All wards

Executive summary:

This report sets out the Council's arrangements in respect of fraud, introducing a joint working agreement with Reigate and Banstead Borough Council, supplementing local arrangements and improved practices.

The report highlights recent attempts at fraudulent activity against the Council, and an incident involving the theft of laptops from the Council's offices.

The report begins the process of regularising fraud reporting to the Committee as part of an ongoing process to improve arrangements.

This report supports the Council's priority of: Building a better Council.

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Recommendation to Committee:

That Committee note the Council's arrangements in respect of fraud, its efforts to improve the management and reporting of fraud, strengthen its anti-fraud arrangements and put in place robust and regular reporting.

Reason for recommendation:

The Council has a duty to protect public funds and other assets. Annual reporting to the Committee is now a constitutional requirement, as set out in the Anti-Fraud Strategy Statement (October 2023).

Overview

1. The Council has a duty to protect the public funds under its control against fraud, bribery and corruption both from within the Council and from external sources.
2. In the current climate of reduced funding and financial hardship it is more important than ever that losses to the Council because of fraud, bribery and corruption are kept to a minimum to ensure that its limited resources are used for their intended purpose.
3. As reported to the Committee's meeting in September 2023, the Anti-Fraud, Bribery and Corruption Policy ('Policy') provides a clear framework alongside the Council's Anti-Fraud Strategy Statement Strategy ('Strategy'), for the Council to undertake necessary, legal and proportionate actions wherever the evidence supports a fact-finding investigation into an allegation of fraud, and to seek recovery of defrauded monies through all possible legal means.
4. This report sets out more detail on the Council's operational arrangements, and a summary of recent attempted frauds as a precursor to future, more comprehensive annual fraud reports.
5. Although not related to fraudulent activity, the report also sets out the circumstances of a recent theft of Council equipment.

Fraud arrangements for Tandridge District Council

6. The S151 Officer is ultimately responsible for the Council's approach to fraud, including its anti-fraud policies and anti-fraud training arrangements. The S151 Officer works closely with the Monitoring Officer and other Officers to discharge these responsibilities. The Council's arrangements are set out below.
7. Overarching capacity for managing fraud is delivered through a joint working agreement with Reigate and Banstead Borough Council. This was developed by the Head of Housing with further input from the S151 Officer. The agreement is governed by a S113 Agreement (Local Government Act 1972) which allows one authority to discharge functions on behalf of another. The agreement was finalised in December 2022 and sets out the following key activities to be provided, separated into those deemed to require urgent attention when the agreement was signed and a further set to become business as usual:

Stage 1 – Urgent Areas
High level fraud risk assessment
To agree the levels of non-cashable savings, preferably in line with Cabinet Office NFI methodologies
Review processes in areas of high-risk, where the Customer is likely to find financial savings – <ul style="list-style-type: none"> • Review housing waiting list – this would be a data matching exercise to identify high risk cases • All new applications would be subject to full checks • Review current and new households in B&B and temporary accommodation • Assessment of all Right to Buys, successions and tenancy • Undertake the NFI exercise for the housing team. • Single Person Discount fraud • Small Business Rates Relief fraud
Develop the initial framework for the Counter Fraud and Corruption Strategy
Fraud awareness training for high-risk areas, including housing, benefits and revenues.
Review and refresh existing fraud referral platforms and promote to staff and public accordingly
Review existing RTB application process with a view to enhancing due diligence aspect
Risk Assess any outstanding fraud referrals with intelligence checks to determine viability for investigation
Stage 2 – Medium Term
Completion of the Counter Fraud and Corruption Strategy
Fraud awareness training to be rolled out across the wider organisation
Work towards an effective programme of prevention
Review of housing stock – <ul style="list-style-type: none"> • Data matching exercise of existing tenants and cross reference with Single Persons Discount • Investigations of all high-risk tenancies that are flagged, for potential abandonment or sub-letting • Anti-fraud campaign for all Tandridge tenants, and development of mechanism for reporting fraud
Target other areas of high risk, such as Council Tax (including SPD review)/Business Rates, Local Council Tax Support and licensing
Stage 3 – Longer-Term Solution
Put into place a more permanent resource that the Council is able to use for on-going fraud referrals, proactive exercises and intelligence work
Regular reviews of Counter Fraud and Corruption Strategy

8. The agreement has been through a process of implementation and bedding-in. As part of next year's 2023/24 Annual Fraud Report, progress against these deliverables will be reported.
9. Key activities to date include:
 - Review of the following strategies:
 - i. Anti-Fraud, Bribery and Corruption Policy (September 2023 this Committee)
 - ii. Whistleblowing Policy (November 2023 this Committee)
 - iii. Anti-Money Laundering Policy (February 2024 this Committee)
 - Training roll-out for Housing and Revenues and Benefits Teams initially to then be expanded to other Officers.
 - Fact-finding investigations into any potential fraud referred from teams within the Council.
 - Production of a monthly Fraud Management report, detailing the work undertaken by RBBC on behalf of the Council each month.

Elements of each monthly report are sensitive since they refer to ongoing fact-finding investigations, however an abbreviated extract is included in Appendix 1 for information.

10. The work undertaken by RBBC is coordinated with further anti-fraud measures undertaken by service teams within the Council. This includes the following, which is not intended to be exhaustive:
 - Revenues and Benefits: Standard checks on all claims, regular reviews of discounts and the recent recruitment of an Inspector to ensure that premises liable for Council Tax and Business rates are comprehensively identified.
 - Surrey-wide single person discount review: The Council took part in a Surrey-wide initiative to review single person discounts which, for this Council alone, secured a reduction in fraudulent or inaccurate discounts of approximately £300k, of which 88% is due to Surrey County Council and Surrey Police and the remaining 12% (£36k) passed to the Council.
 - Exchequer: Standard checks on payments and income, reviews of accounts payable and receivable processes and robust controls over refunds and credit notes.
 - Both teams have participated in the National Fraud Initiative where data is uploaded every two years into a national database to allow cross referencing across local authority boundaries. Referrals are dealt with throughout the year.
 - Housing teams: Standard checks on both housing register and homelessness applications, review of all Right to Buy applications, review of all potential tenancy fraud cases, referrals to RBBC for further fact-finding investigation where appropriate and regular review of anti-fraud arrangements.
 - HR: A rolling programme of mandatory Fraud e-learning is scheduled to be rolled out to all Officers from December 2023.

Recent Activity

11. From 2023/24 onwards, annual fraud reporting will take place, based on the monthly reports from RBBC. Annual reports will be provided to this Committee after each financial year, setting out activity, incidents and control reviews during the year. In the absence of comprehensive management reporting up to this point, this report highlights three recent incidents, two of which fraudulent and one relating to a theft.

Potential refund fraud / money laundering

12. In April 2023, a customer contacted the Council to explain that they had paid a significant amount in error against their account and requested immediate refund. This was highlighted as a potential attempt at money laundering. Officers had to investigate the matter further as potentially the customer would have received a refund from the Council whilst simultaneously recalling the payment via their own bank, thereby receiving two refunds for a single payment. The proper process for payments in error is for the customer to request that their bank recall the payment, ensuring that a single amount is returned to the same bank account that made the payment. The Council stood by its controls despite requests from the customer. In line with its policy, the matter was logged with the National Crime Agency.

Supplier payment attempted fraud

13. In June 2023, the Council prevented a supplier payment fraud. Improved accounts payable processes implemented by the Exchequer Manager played a significant part in preventing the fraud being successful. Brief details are set out, below:
 - Genuine Statement received from supplier.
 - Officers responded to confirm payment would be made according to usual timetable.
 - Further supplier email received with a revised statement, requesting the bank details to be updated and that payment to be made by CHAPS as funds needed in the bank urgently.
 - Officers confirmed that it was not possible to pay by CHAPS and refused urgent payment.
 - Using contact details already held, Exchequer verified with the supplier that there had been no changes of bank detail and that the request to do so was an attempted fraud.
 - Details logged with the National Crime Agency.

A fraudulent payment of £75k was averted.

Laptop theft and subsequent actions

14. Although the following does not relate to fraudulent activity, it nonetheless resulted in a loss of Council assets and should therefore be reported to this Committee.
15. In June 2023, the IT Service team identified that 26 laptops and 10 mobile phones were missing from the IT storage in the Council's Offices. An account of events is provided here in summary form to update Members about the ongoing police investigation.
16. It was determined that the theft was the only plausible explanation for the missing equipment. The equipment had a residual / market value estimated at c.£7,500. The cost of replacing the new equipment is approximately £20,000, however it should be noted that the Council has an approved laptop renewal plan in place, meaning that much of this equipment would have had to be replaced shortly in any event.
17. The IT & Project Delivery Manager immediately briefed the Statutory Officers (Chief Executive, S151 Officer and the Monitoring Officer). The Council took the following actions to address the issue.

Day 1:

- The Council's IT & Project Delivery Manager contacted the police and obtained a crime reference number and has subsequently supported the investigation with all available information.
- IT Officers disabled all missing devices on the Council's network, so the devices could not access any Council data and would be deactivated if any attempt was made.
- The S151 Officer alerted the Head of Internal Audit.
- The Data Protection Officer made an initial assessment about any data protection concerns, with the risk assessed as being low.
- IT Officers removed all remaining equipment to the Council's server room, which has more robust security arrangements.

Subsequently:

- The S151 Officer notified the Council's insurers.
- The Statutory Officers agreed to the commissioning of a fact-finding investigation into the circumstances led by an officer from the Legal Services team, reporting to the Statutory Officers, on the available CCTV, door access logs and other evidence, all of which was passed to the police as part of the ongoing investigation.
- IT Officers have ensured that sufficient laptop stock is in place to maintain business continuity.
- The S151 Officer has commissioned best practice advice from the Head of Internal Audit in respect of the security of IT assets (currently underway).

- The S151 Officer requested that the Assets and Facilities Management Team review building security as a wider point (currently underway).
- It was communicated to all Officers and tenants to remind them of the need to be vigilant with council assets, personal belongings and Council data.

18. The police investigation is still ongoing and so at this point it is not possible to comment further on their findings.

19. There are points to address from the internal fact-finding investigation, the best practice review and the building security review, which Officers are in the process of implementing.

20. Further information on the improvements put in place will be included in the 2023/24 Annual Fraud report, once the Internal Audit and building security reviews are complete.

Other options considered

The Council considered directly employing Officers to manage its approach to fraud, however this was deemed not to offer a robust, resilient or value for money option.

Accessing a dedicated and expert team through the joint working agreement was deemed to be the best value option. The annual cost of the arrangement for 2023/24 is expected to be no more than £56k, although it varies from quarter-to-quarter based on the level of activity undertaken.

Consultation

Not required.

Key implications

Comments of the Chief Finance Officer

The Council has been undertaking a programme of improvement to strengthen its arrangements in respect of fraud, following a recent internal audit which highlighted a number of management actions.

The S151 Officer is satisfied that, once fully embedded, these arrangements will satisfy the Council's duty to safeguard public funds from attempted fraud. Key actions to be implemented include imminent mandatory anti-fraud training for all staff and further bespoke training for specific teams, as well as regular reporting to this Committee.

Comments of the Head of Legal Services

As set out in this report, the Council is becoming more fraud aware and will continue to consider the risks and consequences. Fraud is unacceptable and

requires a well thought through approach. Having an annual report, the Committee will be informed of the measures taken across the organisation to tackle and prevent fraudulent activity. Furthermore, this will assist in the development of future policies and procedures and allow the Committee to support this important function.

The presumption for each service area also within the Council must be about preventing fraud by designing systems to stop it happening in the first place but where it occurs, there should be an equal presumption that its perpetrators will face tough action. This can only serve to increase the standards of conduct across the Council.

Equality

There are no Equalities implications directly arising from the statutory audit of the financial statements.

Climate change

There are no Climate Change implications directly arising from the statutory audit of the financial statements.

Appendices

Appendix A – Extract of monthly fraud report for September 2023

Background papers

None

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