

Counter Fraud Annual Report 1 April 2020 – 31 March 2021

Contents

- 1 Introduction 2
- 2 Executive Summary 2
- 3 Key Mechanisms – Policies and Procedures 3
- 4 Risk based planning to minimise the risk of fraud 4
- 5 Work carried out in 2020-2021..... 4
- 7 Training and awareness 7
- 8 Conclusion.....8

1 Introduction

- 1.1 The purpose of the Counter Fraud Annual Report 2020 -2021 is to provide assurance to the Audit and Governance Committee on the effectiveness of Sefton Council's ('the Council') arrangements in countering fraud, bribery and corruption and to present the work carried out during the past financial year to minimise the risk of fraud. This supports the requirements of the Accounts and Audit Regulations (England) 2015, which states that the Council must have measures in place 'to enable the prevention and detection of inaccuracies and fraud'. This also meets one of the key actions from Sefton's self-assessment against the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Fraud Practice
- 1.2 Management of the Council's 'Whistle Blowing' arrangements is the responsibility of the Council's Chief Legal and Democratic Officer and is reported on separately.
- 1.2 The term 'fraud' typically describes activities such as theft, corruption, money laundering, conspiracy, bribery and corruption as outlined in the Council's Anti-Fraud, Bribery and Corruption Policy '(the Policy)'. The term 'fraud' will be used throughout this report for convenience.
- 1.3 The purpose of this report is to:
 - Provide an update on counter fraud activities during the period 1 April 2020 to 31 March 2021.
 - Demonstrate how the Council is dealing with some of the fraud risks it is subjected to.
 - Outline how resources available have been used to tackle fraud and emerging priorities going forward.

2 Executive Summary

- 2.1 2020-2021 was particularly challenging due to the heightened risk of fraud and economic crime as part of the COVID-19 global pandemic. The public sector was increasingly targeted by criminals, particularly in relation to stimulus funding and support. The Council worked hard from the outset and over the course of the year putting in place pre and post event assurance measures to measure, understand and recover, where possible, losses arising from COVID-19.
- 2.2 The Council's Risk and Audit team appointed an Assurance Manager early in 2019 whose role is to develop a formal plan, seek approval for and manage the delivery of the Council's approach for seeking assurance that counter fraud is an integral part of the Council's activities. An Assurance Team of 1.72 full time equivalent staff was also appointed at the same time as the Assurance Manager, to assist with providing assurance on key elements of the Revenue and Benefits processes as well as carrying out value for money and counter fraud activity across the Council with the aim of maximising revenue and minimising the risks of fraud. The Assurance Manager also co-ordinates the Council's involvement in the Audit Commission's National Fraud Initiative.
- 2.3 It is important to note though that the prevention, detection and effective management of fraud risks is the responsibility of all services within the Council, with the Council's Internal Audit and the Assurance Manager working with service managers in key fraud risk areas to review control processes in the individual service areas and provide managers with support with any fraud investigations.
- 2.4 During 2020-2021 the Assurance Officers from the Risk and Audit team were seconded to

firstly to the Business Rates team in the Council's Revenues Service and then with the Invest Sefton Team in the Council's Economy and Regeneration Service to assist with the Council's response to the pandemic, assessing and delivering both national and Liverpool City Region Business support grant schemes to the Sefton business community.

- 2.5 Following a review of the Council's Anti-Fraud, Bribery and Corruption Policy in December 2019, a Fraud Risk Assessment Guidance Manual was produced in October 2020, with 'Fraud Risk Owners' subsequently nominated by Heads of Service to undertake comprehensive fraud risk assessments for their individual service areas.
- 2.6 The counter fraud position within the Council demonstrates encouraging progress in 2020-2021. The Council's fraud identification and reporting culture is improving and showing signs of increased proportionate investigation and implementation of suitable controls.

3 Key Mechanisms – Policies and Procedures

- 3.1 Effective policies and procedures are essential to ensure that all officers and members are aware of their roles and responsibilities in identifying and managing the risk of fraud. The policies and associated documents are reviewed and updated on an ongoing basis. All policies and associated documents are available on the Council's intranet and include the following:

Anti-Fraud Bribery and Corruption Policy

- 3.2 An updated Anti-Fraud, Bribery and Corruption Policy was approved by Cabinet on 5 December 2019. The Policy sets out the Council's approach to managing the risk of fraud both internally and externally and applies to all individuals who work for the Council, its employees, Members and contractors.

Whistle Blowing Policy

- 3.3 The Council has a Whistle Blowing Procedure available to all staff and Members, and was updated June 2019. This Policy sits alongside the Council's Anti-Fraud, Bribery and Corruption Policy

Anti- Money Laundering Policy

- 3.4 The Council has an Anti-Money Laundering Policy approved December 2020. This Policy sits alongside the Council's Anti-Fraud, Bribery and Corruption Policy.

Risk Assessment Guidance Manual

- 3.5 The guidance was introduced in October 2020 to provide Fraud Risk Owners with guidance on identifying functions within their service areas that may be vulnerable to fraud. These functions are those that could be exploited by employees or others for personal gain, (generally, but not limited to financial gain). A five-step fraud review process is in place to assist service areas in completing the fraud risk assessments:

- Step1 Identify functions
- Step 2 Assess current controls
- Step 3 Identify vulnerabilities
- Step 4 General risks
- Step 5 Enhance controls

4 Risk based planning to minimise the risk of fraud

- 4.1 A self-assessment of the Council's activities against the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Fraud Practice was undertaken and presented to the Strategic Leadership Board in July 2020. The CIPFA Fraud Risk self-assessment highlighted some areas where development was required to meet the good practice note. Key actions took place in 2020-2021 to improve counter fraud measures across the Council. As part of the approach, Heads of Service were asked to appoint Fraud Risk Owners for their individual service areas who were required to complete fraud risk assessments for current and any new activities. The risk assessment process documented roles and responsibilities for managing the fraud risks within the organisation.
- 4.2 An updated Local Government Counter Fraud and Corruption Strategy – Fighting Fraud and Corruption Locally ('FFCL') was launched in 2020. The previous FFCL strategy focused upon pillars of activity that summarised the areas local authorities should concentrate efforts on. These were 'acknowledge', 'prevent' and 'pursue'. These pillars are still applicable. However, another two areas of activity have emerged that underpin tenets of those pillars. These are 'govern' and 'protect'. The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies. The second new area that has appeared during the FFCL research recognises the increased risk of harm that fraud has on its victims and protecting the community, placing an additional responsibility on the Council to protect its residents from fraud.
- 4.3 The Council's Anti-Fraud and Corruption Strategy ('the Strategy') began development in 2020-2021 and follows the principles contained in the Code of Practice on Managing the Risk of Fraud and Corruption, published by the Chartered Institute of Public Finance and Accountancy (CIPFA code) and the FFCL checklist, produced by Local Government partners in 2020.
- 4.4 The further development, consultation, approval and implementation of the Strategy will be reported on in the Counter Fraud Annual report 2021-2022. As part of the approved Strategy estimates of financial fraud loss from Fraud and Corruption will be provided to the Audit and Governance Committee on a quarterly basis.

The Strategy will incorporate:

- strategic objectives
- governance and corporate framework
- environment and culture
- working with others to prevent and fight fraud
- identification of risk
- prevent, pursue, protect
- training, raising awareness and publicity
- roles and responsibilities

5 Work carried out in 2020-2021

National Fraud Initiative (NFI)

- 5.1 A data matching exercise with the Government's National Fraud Initiative (NFI) was undertaken identifying instances where an employee and creditor (accounts payable

records) were linked by the same bank account, or the same address, to identify employees with interests in companies with which the Council is trading. The link with companies was identified from Companies House records. Heads of Service and the Personnel Department were contacted to confirm that the employees identified in the matches had completed declarations of interest regarding their respective company interests. The outcome of the exercise confirmed that none of these matches had declared their interests. Recommendations arising from the exercise have been included in the Ethics and Code of Conduct Audit Report.

- 5.2 In June 2020 a data matching exercise was commenced as part of the Council's involvement with the National Fraud Initiative 2020 - 2021 work programme of mortality screening following the Covid-19 health emergency. The data submitted by the Council was matched against the DWP deceased persons data with an aim to identify those individuals that required further investigation to prevent potential overpayments of pensions and Council Tax support. The exercise resulted in seven matches for Pensions and 482 matches for the Council Tax Reduction Scheme. Matches were investigated and results have been followed up.
- 5.3 All other mandatory dataset requirements for the 2020 -2021 NFI work programme were successfully submitted by the Council to NFI as follows:
- Council Tax Reduction Scheme
 - Housing Waiting List
 - Payroll
 - Pensions
 - Resident Parking Permits
 - Taxi Driver Licences
 - Trade Creditors

Business and Discretionary Grants Fraud

- 5.4 In response to the COVID-19 pandemic, the national lockdown resulted in large numbers of businesses temporarily closing, particularly in the retail, tourism and hospitality sectors. Financial support was made available for qualifying businesses, delivered through the Small Business Grant Fund, Retail, Leisure and Hospitality Grant Fund and a number of Discretionary Grant Schemes both at national and regional level. The Council was responsible for administering these grant payments. Internal Audit and the Assurance Manager supported this by advising on new controls to administer the funds.
- 5.5 Guidance provided by the Government in 2020 set out the role of Local Authorities in providing assurance to both themselves and to the Department for Business, Energy and Industrial Strategy (BEIS) to minimise the risk of error and fraud. To deliver this requirement, and as part of an assurance plan, Internal Audit and the Assurance Manager supported the service areas in the development of pre and post-payment assurance checking regimes, which were informed by fraud risk assessments undertaken for each of the business grant schemes, detailing the likelihood of fraud and error.
- 5.6 The Government's Grant Management Function and Counter Fraud Function made their digital assurance tool, Spotlight, available to Local Authorities to support the administration of COVID-19 emergency grants. Spotlight has a number of key features namely processing initial due diligence checks, using data from Companies House and the Charity Commission, government grant awards and contracts, to help build a picture of the grant recipient and used as part of the post payment assurance programme. Spotlight is being utilised by the Council during to investigate all payments made over the last twelve months under the Small Business Grant Fund, the Retail, Hospitality and Leisure Grants Fund and Local Authority Discretionary Fund Grants Fund.

- 5.7 During September 2020, following the closure of the Business Support Grant Scheme at the end of August 2020, sample checks were undertaken to identify any potentially fraudulent or irregular activity, with the aim of identifying any over payments as well as providing general assurance on the delivery of the project. The outcomes of the post event assurance work fed into an audit report.
- 5.8 The Cabinet Office confirmed that Business Support Grants and Business Rates datasets were to be mandated in the 2020/21 NFI data matching exercise in order to identify potential fraud. The draft timetable for the submission of the grants data was 29 January 2021. The results of the data matching were released to the Council by NFI by 31 March 2021, and the Council will be following up the data matches between 31 March 2021 and 31 December 2021.

Data matching is undertaken based on established NFI methodologies to identify potential fraud in relation to:

- multiple grants paid to businesses within or between LA's;
- duplication between grant schemes where relevant; and
- payments made to business or individuals flagged in proven fraud 'watchlist' data, where available.

Results of this exercise will be reported in the Counter Fraud Annual Report 2021-2022.

- 5.9 For Business Grant Fraud the Government provided debt recovery guidance to Local Authorities in September 2020. There are three types of ineligible payments; error, non-compliance and fraud. If reclaiming funds is not possible the debts are to be referred to the BEIS to establish the next steps and ultimately determine whether the Local Authority will be held accountable for the debt. All identified fraud regardless whether it is local, cross boundary or organised will be referred to Action Fraud via the website www.actionfraud.police.uk
- 5.10 In August 2020, an investigation into alleged grant fraud was undertaken, following a landlord notifying the Council. However, the investigation found no impropriety had been committed and the grant had been paid correctly.
- 5.11 An attempted fraud for COVID-19 grant funding for multiple businesses at one address in Sefton under one of the Liverpool City Region Grant Schemes was prevented due to the tight controls in place. All the applications showed strong indication of fabricated information and did not meet the audit thresholds so were rejected without offering any option of appeal.

Assurance activities

- 5.12 A performance and improvement plan was in place for assurance activities in 2020-2021, which included supporting other key risk areas within Risk and Audit. The plan included a range of assurance checks to be undertaken across Customer Centric Services, which included refunds, Council Tax discounts and exemptions, Business Rates Reliefs and Exemptions, including Small Business Rates Relief. This work was designed to complement any audit activity undertaken during the year. However, Assurance activities were put on hold from April 2020 as the assurance team were seconded to assist the Revenues and Economic Regeneration services in the delivery of the Business Support Grants to the local business community across Sefton during 2020-2021.

Insurance Fraud

- 5.13 In June 2020 a suspected insurance fraud was referred via the Council's Claims handlers

for further investigation. This provided a claimant profiling report which included a review of the claimant's social media accounts under the General Data Protection Regulations provisions (prevention of fraud and crime).

- 5.14 In December 2020 instructions were issued to the Council's solicitors to handle two insurance claims involving suspected fraudulent collusion over tripping incidents in the Borough.
- 5.15 On another matter relating to insurance fraud, also in December 2020, the Council's solicitors brought to a successful conclusion a motor insurance claim where fundamental dishonesty was found. Over £4k of legal costs incurred in pursuing the matter are being reclaimed from the claimant.

Social Care Fraud

- 5.16 Irregularities referred to Internal Audit in January 2021 on a social care matter resulted in further investigations being undertaken into potentially fraudulent activity by the same client in another Council area.

Council Tax fraud

- 5.17 At the end of November 2020, Sefton's Council Tax and Electoral Register data was submitted to the National Fraud Initiative as part of an official annual data matching exercise to check sole occupier discount entitlement where there is information to suggest there may be more than one person in the household.

6 Working with Partners and Stakeholders

- 6.1 The Council continues to cooperate with other local authorities in sharing relevant intelligence about frauds and scams. One such joint investigation was undertaken 2020-2021 relating to misrepresentation in relation to Business Grant applications in both Sefton and the other billing authority.
- 6.2 The Council continues to participate in the Merseyside Regional Fraud Group to jointly develop and share best practice in Counter Fraud through a number of approaches, including information and knowledge sharing, policy and procedure development and joint working where appropriate.
- 6.3 The Council continues to participate as a member of the National Anti-Fraud Network (NAFN), a shared service organisation that provides data, intelligence and best practices for Member organisations.

7 Training and awareness

- 7.1 Regular COVID-19 intelligence bulletins were received during the year from CIFAS, a not-for-profit fraud prevention membership organisation, which gave an insight into the latest phishing techniques, cyber-enabled threats, internal risks and other fraud threats identified by the CIFAS Intelligence team. Their bulletins are designed to help protect, prevent, mitigate and anticipate the key fraud threats that could target the Council, our citizens, businesses and employees. We secured permission from CIFAS to put these briefings on our internal Intranet so staff across the Council could benefit from being aware of the scams and risks associated with fraud threats. However, we restricted them from being copied, edited or printed.

Typical COVID-19 emerging threats, trends and fraud risks include:

- Fraudsters taking over business premises which were/are unoccupied. The fraudster targets these empty properties using a recently created company for purpose of making a grant claim;
- A number of companies are being sold on eBay which could potentially be used in bounce back loan fraud;
- Scammers posing as officials making business Covid-19 inspections;
- Fraudulent documents (passports and degree certificates);
- Grant fraud (especially the use of fake documents);
- Business impersonation fraud;
- Investment fraud (mainly via social media);
- Cloned websites;
- Fraudulent telephone calls (mainly Amazon and government agencies);
- SMS phishing scams (HMRC tax relief for self-employed professionals);
- Phishing emails (more recently TV licensing following the reintroduction of TV license fees for the over 75s,
- HMRC)
- Mandate fraud;
- Ransomware;
- As part of the rules around the opening of pubs, clubs and restaurants, businesses have been asked to collect customer contact details to assist with contact tracing. This could put customer's information at risk if it is not held securely.

8 Conclusion

- 8.1 The range of activities and incidents covered in this report highlights the extent to which fraud exists as a risk to the achievement of the Council's objectives. Council staff have been working under extreme pressure during the pandemic which may mean that some internal controls may have been suspended or relaxed and staff being redeployed to operational areas to meet the demands of the pandemic.
- 8.2 Whilst the number of potential fraud cases identified in 2020-2021 is low, it is important to recognise that the continued engagement of service areas across the Council is imperative in order to identify and investigate weaknesses in controls, emerging fraud risks and there is effective communication between the services involved, with Internal Audit and the Assurance function providing advice on fraud risks and mitigating controls.
- 8.4 The Council has seen the development of further measures to enable the prevention and detection of fraud in 2020- 2021, but work will continue in 2021-2022 to ensure that there is enough capacity for further proactive counter fraud and investigative work to be undertaken. A number of options are being considered with the aim of continuing to prevent losses, securing tangible benefits and delivering a value for money service for the Sefton community.