

ANNUAL FRAUD REPORT 2022 / 2023

1...INTRODUCTION

- 1.1 Fraud is a significant risk to the UK public sector. Losses to Local government due to fraud results in less funding for public services. The government estimates that the taxpayer loses up to £51.8 billion to fraud and error in public spending every year and 40% of all crime committed in the UK is categorised as fraud.
- 1.2 To effectively combat fraud the council needs to have a counter fraud framework that helps it prevent, detect and deter fraud. Counter fraud work needs to develop at least as quickly as the techniques used by criminals seeking to defraud the council.
- 1.3 The council is committed to providing an effective counter fraud service which is supported by efficient policies and sanctions for those that offend. Combating fraud is the responsibility of everyone in the council and by ensuring that effective measures are in place to prevent, detect, investigate and report fraud we can ensure that public money is spent where it should be, on services for the community.
- 1.4 Failure to investigate fraud will see money leaving the council by way of fraud or error and failure to tackle this effectively could lead to qualified subsidy claims and loss of revenue for the Council. It is therefore important to demonstrate that resources are focussed on fraud reduction and to identify, investigate and rectify administrative weaknesses in order to assure Members and the general public of the quality and integrity of investigations.
- 1.5 Peterborough City Council has various policies and procedures in place which provide an overarching framework to counter fraud work, which are included in Table 1.

Table 1: Counter Fraud Policies / Lead Sections	
Policy	Lead
Employee Code of Conduct	Legal
Disciplinary Policy	Human Resources
Members Code of Conduct	Legal
Contract Standing Orders	Legal
Financial Regulations	Finance
Regulation of Investigatory Powers Act (and procedures)	Legal
Whistleblowing Policy	Legal
Anti Fraud and Corruption Policy	Internal Audit
Sanctions / Prosecution Policies	Internal Audit

- 1.6 The reporting of suspected fraud to the Council takes numerous avenues. The Council has a dedicated fraud hotline within Investigations which receives calls from the public, predominantly in relation to welfare benefit fraud. The majority of cases are referred through to Department for

Work and Pensions. Similarly, there is a fraud email (fraud@peterborough.gov.uk) which directs allegations through to Investigations.

1.7 Other allegations are received:

- Post. These tend to be anonymous referrals in relation to members of the public “grassing” on neighbours for welfare fraud;
- Via Whistleblowing Policy. There are a number of nominated officers who can be contacted in relation to whistleblowing. There were no direct referrals to the Chief Internal Auditor in 2022 / 2023;
- Referrals from external organisations. There are reciprocal arrangements in place with the Department for Work and Pensions. Prior arrangements with Cross Key Homes are to be revisited.
- Referrals from departments. These usually take two forms – staffing cases from Human Resources and Blue Badge misuse from Parking Enforcement.

1.8 Other services across the Council will have their own arrangements for handling misdemeanours, such as Trading Standards in relation to fireworks, tobacco or alcohol. Those are not subject to this report production.

1.9 This report documents the Council’s response to fraud during 2022/2023 and is presented to the Audit Committee in order to discharge its responsibility, as reflected in its terms of reference '*Council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the council's complaints process*'. (Terms of Reference 2.2.2.16)

2...LOCAL AND NATIONAL FACTORS IMPACTING ON FRAUD LEVELS

2.1 National

2.1.1 It has been well documented that the country is currently experiencing a “cost of living crisis” which has been determined from a number of financial factors. As a consequence, these can ultimately result in sharp increases in the number of attempted frauds against local government. Examples include false claims for discounts and benefits and bogus insurance claims.

2.1.2 Individuals are not safe themselves and there are also signs of increases in more sophisticated methods targeting the public. For example, this could be through scam telephone calls / text messages purporting to be in relation to financial support (e.g. previous government support in relation to energy bills).

2.1.3 To provide a response to tackling fraud a number of legislation and organisational changes have been put in place by the government. These include:

- Public Sector Fraud Authority. The new initiative was launched in August 2022 and has a mandate to modernise central governments response to counter fraud. While predominantly focussed on central government departments in the interim, there is a mandate that best practice and standards will be shared with local government.
- The Police, Crime, Sentencing and Courts Act 2022 may impact on how local authorities can offer sanctions in relation to various offences.

- Covid-19 payments to businesses concluded in year. Councils have worked alongside the Department for Business, Energy and Industry Strategy (BEIS) to complete reconciliation and assurance exercises. BEIS released their annual report in October 2022 and they estimated that fraud within the initial schemes (e.g. Small Business Grant Fund and Retail Hospitality and Leisure Grant Fund) at the start of the pandemic was 8.4% of payments nationally (£985m). Later schemes (Additional Restriction Grant and Omnicron Hospitality and Leisure Grant) lost 1% of payments due to fraud. Councils are working together with central government to recover money lost. This has formed part of the work through the National Fraud Initiative.

2.2 **Local**

2.2.1 The levels of reported fraud during the pandemic were minimal e.g. due to restrictions on movement etc. As the UK reopened the numbers have increased. In year activities have included:

- Bi-annual National Fraud Initiative (see Section 3);
- Raising awareness of the dangers of cyber crime across all employees; and
- Targeted Blue Badge Action Days.

3...NATIONAL FRAUD INITIATIVE

3.1 **Bi-Annual Exercise 2022**

3.1.1 The National Fraud Initiative (NFI) exercise brings together datasets from across the public and private sectors. The provision of data for the purposes of NFI is a requirement of the Audit Commission Act 1998. The Council provides a range of datasets for matching, on receipt of the results the Council then has the responsibility to follow up and investigate the matches, and identify fraud, overpayment and error. The main NFI data matching is undertaken every 2 years, the results of these matches are fed into a national report at the end of each cycle. The Council submitted data in October 2022 and matches for review were received in February 2023. Further matches are received as other organisations submit their data. Distinct datasets are prescribed, for PCC these are:

- Blue Badge Parking Permits (data provided by national software provider);
- Concessionary Travel Passes;
- Creditors (payment data and supplier references);
- Council Tax Reduction Scheme recipients;
- Housing Benefits (data provided by DWP);
- Payroll;
- Residential Parking Permits;
- Taxi Drivers Licences: and
- Waiting List (Housing)

3.1.2 Electoral Registration and Council Tax data is submitted annually for data matching of Council Tax Single Person Discount and electoral registration data following publication of the Council's new electoral register each December. This was submitted and matches received as per Table 2.

Table 2: Breakdown of Matches Received By Dataset	
	Number of Matches
Council Tax to Electoral Register	2,947
Council Tax rising 18s	25

- 3.1.3 In order to look at an appropriate response to the inherent risk of fraud / error in this area, various initiatives are undertaken. The Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption / discount. Council taxpayers are under a duty to report within 21 days if they think they should no longer qualify for a discount. The Council has in excess of 26,000 households within Peterborough currently receive the 25% discount. While most residents are claiming the discount appropriately, there are likely to be a minority who are attempting to defraud the system.
- 3.1.4 Matches identify addresses where the householder is claiming a SPD on the basis that they live alone yet the electoral register suggests that there is more than one person in the household aged 18 or over. The electoral register also includes details of individuals who are approaching their 18th birthday. Unless there is an exemption, for example, a student, then the single person discount would need to be revoked from the date of their birthday.
- 3.1.5 Potential matches verification remain ongoing with Revenues and Benefits.
- 3.1.6 For other datasets the matches were only received in February 2023, there are similar key outcomes already being noted with previous exercises which impact on the success of the initiative, these been:
- Data quality; and
 - Timeliness of records being updated
- 3.1.7 Table 3 sets out the number of matches which have been identified for further investigation. Overall, the levels of fraud identified from the initial sift from this exercise has been on the lowside. It suggests that there are appropriate checks already in place to reduce the risk of fraud at source. Therefore, we could provide reasonable assurance that the data matches did not reveal a high level of fraudulent activity.

Table 3: Breakdown of Matches Received By Dataset			
	No. of Records Submitted	Datasets Matched To	Number of Matches
Housing Benefits	External provider	1. 2. 3. 4. 5. 6	81

Payroll	1,912	7. 8. 9	35
Blue Badges	External provider	5. 10	527
Residential Parking Permits	3,427	5. 11	10
Waiting List	2,633	2. 5. 6. 12	262
Taxi Drivers	1,193	11	1
Council Tax Reduction Scheme	12,007	2. 4. 5. 7. 8. 12. 13	323
Creditors	178,380	14. 15. 16	3,644
			Total 4,883
1. Student Loans / 2. Housing Tenants / 3. Right To Buy / 4. Taxi Drivers / 5. DWP Deceased / 6. Waiting List / 7. Payroll / 8. Pensions / 9. Creditors / 10. Blue Badges / 11. Amberhill / 12. Housing Benefits / 13. Council Tax Reduction Scheme / 14. Duplications / 15. Companies House / 16. VAT Overpaid			

- 3.1.8 Overall, NFI continues to be an important exercise for detecting fraud across the public sector. With more and more datasets being requested and the increasing numbers of organisations matched against, there is a risk that this could become unmanageable to keep track of and do justice to the wealth of data and matches received.
- 3.1.9 Works are coordinated and investigated through Internal Audit currently but going forward greater ownership is required by the organisation to manage and regularly update its own records – enhancing the data quality so as to reduce the number of matches to those of highest fraud risk only.

4...COUNCIL TAX SUPPORT AND JOINT WORKING WITH DEPARTMENT FOR WORK AND PENSIONS

- 4.1 As of 1 April 2013, Council Tax Benefit ceased to exist and was replaced by Council Tax Support schemes. Benefit fraud will always be a risk faced by local authorities owing to the high volumes of payments and complexities of legislation. There has been a steady decline in the number of investigations over the last four years, due to a number of factors such as better intelligence to stop claims before they are even set up, and this has mirrored a reduction in the size of the team over the same time period. The Council has a dedicated “fraud” hotline. Information is received, recorded and initial sifting takes place. Some information may be malicious and cases are closed while others may have substance and these are referred to the appropriate organisations to investigate. There has been a reduced level of referrals received – possibly as a result of the pandemic, various lockdowns, furlough etc. – but these are now starting to increase.
- 4.2 Council Tax investigation types include:
- contrived tenancy;
 - undeclared income;

- living together;
 - non-residency;
 - working and claiming;
 - undeclared non-dependency; or
- 4.3 From December 2018, a separate initiative has been set up with the DWP whereby intelligence is shared in relation to fraud cases. If there is scope for joint prosecutions for both Council Tax and Housing Benefit fraud then a joint interview is conducted to avoid duplication, only one prosecution or sanction etc. and this is led by the DWP.
- 4.4 Similarly, with the pandemic, officers at DWP have been reassigned to other activities and the joint working has not been in place during the year. While officers are now returning to their substantive posts, there remains a backlog of cases which require investigation.

5...OTHER INVESTIGATIONS

5.1 The works of the Investigations team also covers activities in relation to:

- Corporate Complaints (Stage 2)
- Disciplinary (gross misconduct) and grievance investigations
- Blue badge misuse

5.2 Stage 2 Corporate Complaints

Stage 2 Corporate Complaints were repositioned away from the Chief Internal Auditor in February 2023 to remove a layer of impairment. At that time, 21 cases had been assessed during the year to 28 February 2023.

5.3 Disciplinary Cases and Grievances

Cases of alleged disciplinary breaches are conducted by the Investigations Team. During the pandemic and with working from home the disciplinary referrals had dropped considerably. The majority of referrals have been in respect of people who have not been working from home. All cases are different in their nature, complexity and time needed for these to be completed. Results of these include dismissals, final written warnings, verbal warnings and resignations. Following a disciplinary hearing, there may be a requirement for additional works and presentations at professional bodies. Grievances follow the same rigorous level of investigation and are provided to the Investigations Team by Human Resources. A number of these arise from disciplinary cases which delay the outcome of the latter as they need to be resolved first.

Cases during the year have included unauthorised absences; timesheet falsification; referrals to professional bodies and pension grievances.

5.4 Blue Badge Misuse

Work continues to look into Blue Badge abuse. The majority of referrals are as a result of Enforcement Officers confiscating Badges which they see as being misused. All cases are reviewed which could lead to warning letters being issued or sent for prosecution. Following successful conviction, appropriate publicity is issued internally and externally to raise the profile and to act as a deterrent.

6...FRAUD RISK ASSESSMENTS

- 6.1 The Chief Internal Auditor completes an Annual Fraud Risk Assessment (Table 4) which is designed to identify areas of fraud that present the greatest risk to the Council. The risk assessment is informed by national and regional reports of fraud affecting local authorities, together with an changes in processes or cases investigated.
- 6.2 The risk assessment reflects on inherent and residual risk from the specified fraud threats.
- Inherent = Risk to Council if no controls in place to prevent fraud
 - Residual = Potential risk level after current controls are taken into account.

Table 4: Fraud Risk Assessment (as at April 2023)					
Risk Area	Description	Controls	Assurance	Inh.	Res.
Adult Social Care fraud	Non declaration of capital to avoid paying for care. Misuse of Direct Payments scheme	Applications carefully assessed against eligibility criteria. Direct Payment monitoring within service Assessment Team access to credit checking to help identify undeclared assets	IA Plan 2023	H	H
Creditors	Transparency agenda lead to PCC publishing expenditure above £500. This has the potential to make Councils vulnerable to attack. This can be in the form of mandate fraud where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in bank details.	Controls in place to identify fraudulent attempts to divert payment Segregation of duties (Residual still considered high due to potential high loss values / frequency of attacks / human error)	IA Plan 2023	H	H
Cyber Crime	Variety of types including ransomware, phishing, whaling, hacking etc.	ICT firewalls / filters (Residual high risk as is subject to human error)	ICT awareness training to all staff	H	H
Council Tax (single person discounts)	Low value loss per claim but large loss cumulatively	Validity of applications Annual billing reminders	National Fraud Initiative	H	M
Council Tax Support	Non declaration of changes in circumstances etc.	Eligibility checks	National Fraud Initiative	H	M

		DWP communication links	DWP joint working		
Procurement	Cartels, "insider trading"	Established procurement rules with clear segregation of duties for evaluation of tenders etc.	IA Plan 2023	H	M
Treasury Management	Cash flow, banking and investment market checks	Treasury management controls Segregation of duties Approved lending lists	IA Plan 2023	H	L
Internal Fraud	Employee related e.g. falsifying timesheets or expenses; working elsewhere while sick etc.	Policies in place which managers should follow Segregation of duties	Director assurance statements Investigation Team working alongside Human Resources	M	M
Recruitment	False declarations of qualifications / misleading information in relation to right to work in UK	Human Resources verification including DBS checks; References	Audit Plan 2023	M	M
Insurance Claims	Fabricated claims for slips and trips etc.	Robust checks of all claims for evidence	Review of payment claims (NB: No longer part of National Fraud Initiative dataset – seen as low risk)	M	L
Theft of Assets	Portable / desirable assets such as ICT equipment removed	Asset registers CCTv systems	Audit Plan 2023	M	L
Blue Badge / Residential Parking	Low financial risk but reputational damage for PCC if misused	Eligibility criteria for all applicants. NFI identifies quality of PCC records when compared with DWP deceased lists. Duplicate badges identified can be recovered from other Councils.	NFI work Proactive Blue Badge day to raise awareness	L	L

7...DEVELOPMENTS 2023 / 2024

7.1 The investigation of fraud is a continuous and ever-changing work programme. This will cover:

- Counter Fraud. Regular reviews of policies and processes together with reassessing the counter fraud risks. There is a need to assess the impact of Business Rates in year.
- Proactive work. Liaising with ICT in relation to cyber risk and Insurance for claims, and produce various awareness guides for managers
- Reactive work. Ongoing investigations for the Council and in conjunction with DWP.
- National Fraud Initiative. Ongoing coordination and reporting on findings.

Chief Internal Auditor
July 2023

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