

INTERNAL AUDIT COUNTER FRAUD REPORT 2021/2022

1. Introduction

1.1 The Council's Financial Regulations require all officers and members of the Council to notify the Chief Internal Auditor of any matter that involves, or is thought to involve, corruption or financial irregularity in the exercise of the functions of the Council. Internal Audit will in turn pursue such investigations in line with the Counter Fraud Strategy and Framework.

1.2 Within the Orbis Internal Audit Service, the Counter Fraud partnership team provides resource and experience to support BHCC with both proactive and responsive support relating to any instances of financial irregularities and fraud related risks.

1.3 The annual Internal Audit Plan for 2021/22 carried within it a contingency budget for 'Irregularity and Special Investigations' of 150 days. This contingency covered time to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for proactive counter fraud work and to support the National Fraud Initiative (NFI), detailed in the latter part of this report.

1.4 Internal Audit reports following irregularity investigations typically help to provide independent evidence to support (or not) a management case against an employee under formal disciplinary procedures, to support potential criminal prosecutions and to help strengthen controls in areas where weaknesses are identified. Irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential and sensitive nature.

2. Summary of investigations between 1 April 2022 and 31 March 2021

Resources

2.1 During the 2021/22 financial year, a total of six Internal Audit officers charged time to work on irregularity investigations amounting to 133.9 days.

2.2 The Counter Fraud team also monitors the Anti-Fraud inbox and a BHCC Confidential Reporting email address that was introduced part way through the year, giving advice to members of staff on whistleblowing, and signposting to other departments where required.

Number and Types of Investigations

2.3 A total of 30 allegations were received in the financial year (8 in the first half of the year and 22 in the second half). For comparison, 43 allegations were received in the previous financial year.

2.4 New allegations were brought to the attention of Internal Audit by the following methods:

- 21 were raised by Council management;
- 5 originated from an external source to the Council;
- 4 were raised through confidential reporting.

2.5 Full details of the categories by which fraud and irregularity investigations are reported are attached at Appendix A. All proven fraudulent or irregular behaviour by

officers may be considered misconduct; similarly, poor controls increase the likelihood of fraud occurring. The categories therefore reflect alleged specific types of fraud or irregularity.

2.6 The number of all recorded allegations across the Council’s directorates is shown in Figure 1, while Figure 2 shows the categories of allegations received.

Figure 1. Allegations by directorate from 1 April 2021 to 31 March 2022

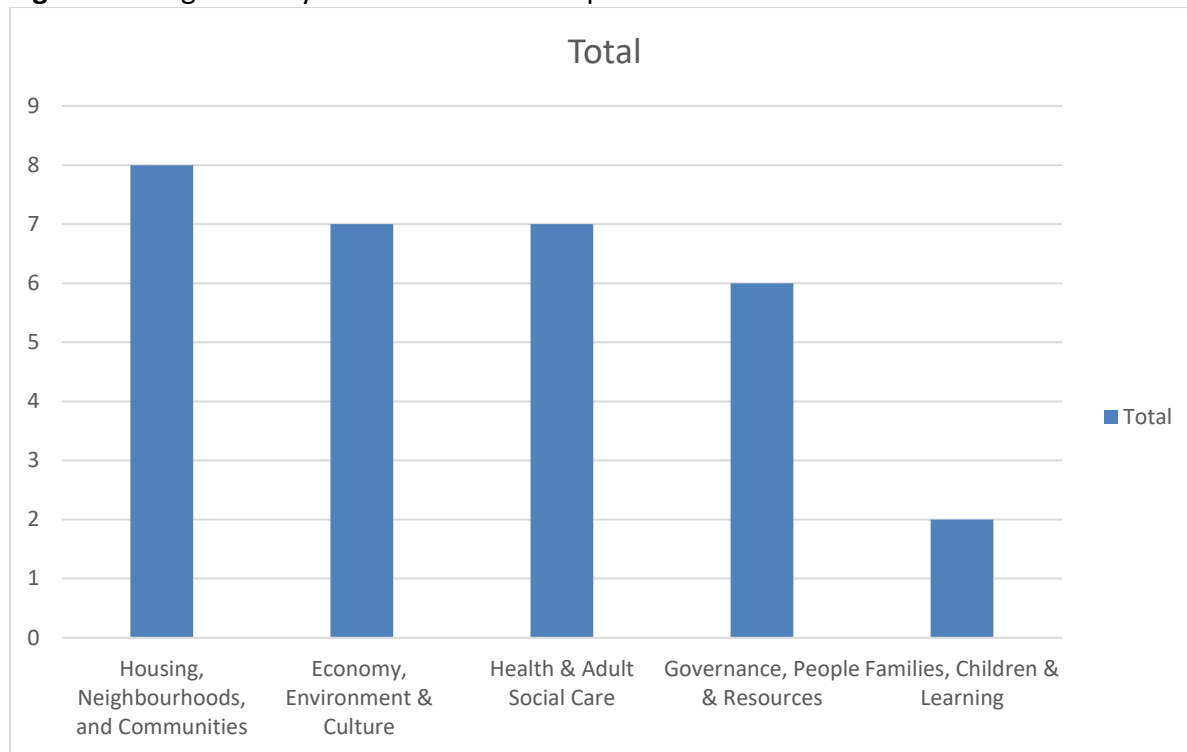
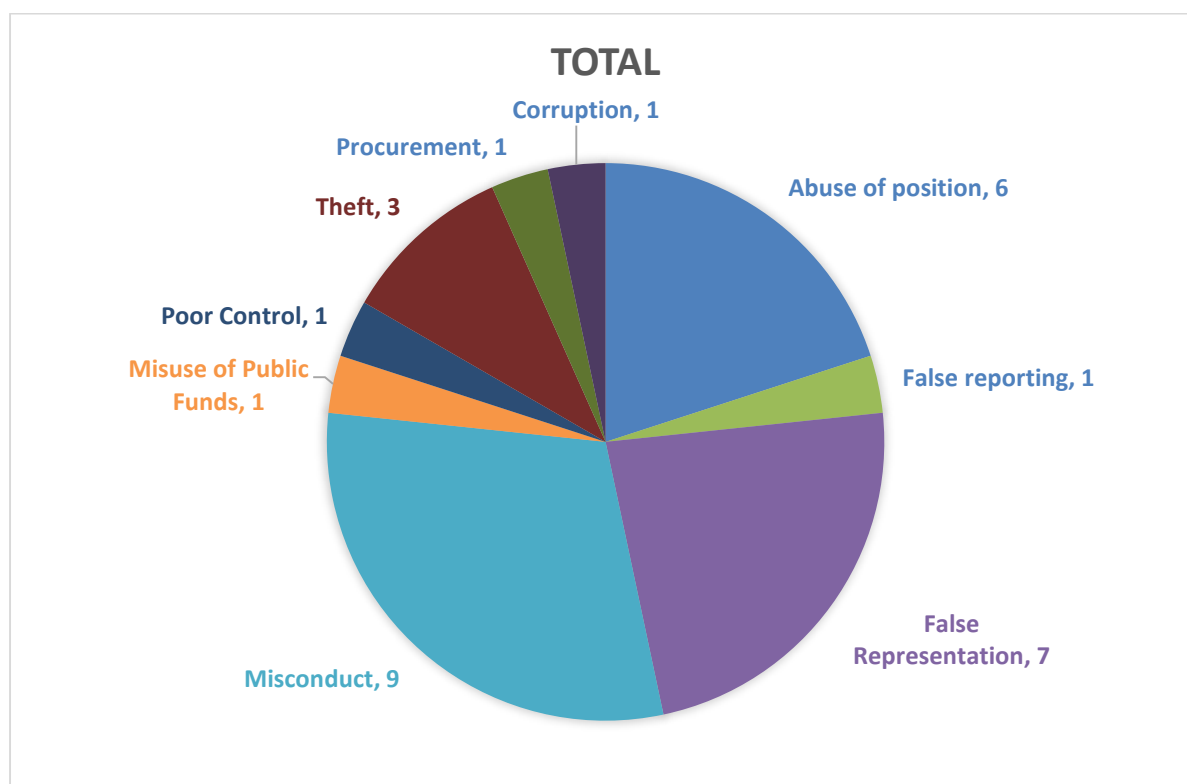


Figure 2. Summary of irregularities by type from 1 April 2021 to 31 March 2022



2.7 Of the 30 allegations received, 5 were closed with no action taken, 9 were taken forward for investigation by Internal Audit or support provided to a management investigation, and 8 were conduct or capability issues dealt by management with support from HR where appropriate. Eight referrals are still active at the time of writing.

2.8 The following paragraphs provide a summary of the investigation activity completed by Internal Audit in the last 12 months.

2.8.1 **Covid Business Grants** - throughout the year, we have continued to provide the Business Rates Team with advice and support when administering applications for the Small Business Grant, the Retail, Hospitality and Leisure Grant Fund and the Restart Grant. We have also investigated allegations of false applications for the grants and worked with management to meet the Department for Business Energy & Industrial Strategy (BEIS) reporting requirements for the schemes.

2.8.2 **Misuse of Resources** - following a whistleblowing allegation, we conducted preliminary enquiries relating to allegations of misuse of overtime, misuse of Council resources and conflicts of interests in the Housing Repairs Service. Preliminary enquiries identified several procedural issues, but no fraud was identified. A report summarising our findings was issued to the Executive Director of Housing, Neighbourhoods & Communities and HR who addressed the procedural issues.

2.8.3 **Avoidance of Parking Fines** - an investigation was conducted following an allegation that an employee had registered a vehicle in a false name in order to avoid paying Penalty Charge Notices for illegal parking. The investigation established the vehicle belonged to the employee and advice was provided to the Parking Team on recovering the debt.

2.8.4 **Blue Badge Misuse** - advice and support has been provided to HR and service management in three cases where employees have been identified as misusing a Blue Badge belonging to another person to park their vehicle at no cost or in dedicated bays. Disciplinary or other action has been progressed in these cases, including the issue of a second written warning to an employee.

2.8.5 **Misuse of Resources** – an investigation was carried out following receipt of an anonymous report alleging misuse of Physical Education & Sports Premium at a BHCC school. During the course of the investigation additional allegations were received alleging nepotism in the appointment of school staff and misuse of resources. Following the investigation, we agreed a number of actions to improve control in relation to the appointment and vetting of staff, and governor oversight of procurement decisions. Following receipt of the report the Chair of Governors has subsequently commissioned an independent governance review of the school with the support of Governor Services.

2.8.6 **Grant Funded Third Sector Organisation** - during quarter 3, we were approached to provide support to the Communities, Equality & Third Sector Team regarding a local charity which has a grant funding relationship with Council. Specifically, we were asked to review the response by the charity to allegations on internal fraud and corruption. This work was completed, and advice provided on what further action we believed should be carried out to ensure the matter was dealt with appropriately,

both in response to the allegations, and to strengthen governance. In addition, the Equality & Third Sector Team have put in place a number of conditions to assure that the charity has sufficient governance processes in place prior to the Council providing further funding.

- 2.8.7 **Cash Theft** - we were contacted by the Early Years & Childcare Strategy Manager in December 2021, advising that some cash payments from parents had been reported missing from a nursery safe. Significant control weaknesses meant that it was not viable to investigate the suspected theft. Instead, our work focussed on reviewing financial controls in place at the setting relating to cash and banking with a subsequent Internal Control Report being issued. This included management actions required to mitigate the risk of future losses. The nursery was also advised to report the loss to the police.
- 2.8.8 **Theft from a Hostel** - a hostel manager made contact with the team following the theft of cash from a locked box and a safe at the hostel. Both incidents had already been reported to the police. We provided the manager with support and advice regarding security of cash and amendments were made to their security procedures. No further incidents have been reported.
- 2.8.9 **False Documents** - advice was provided to the Concessionary Travel Team following a client submitting false documents in an attempt to obtain a bus pass. Following a review of the documents, the bus pass was not issued.
- 2.8.10 **False Remittance Advice** - an investigation was undertaken following the receipt of bogus invoices from a supplier to the Council. Enquiries identified that the invoices had been created and doctored externally to the Council. The supplier was notified, and a referral made to the police.
- 2.8.11 **Adult Social Care** - over the past year we have committed considerable resource to raising awareness to the risk of fraud in Adult Social Care. This has generated a significant increase in the number of cases referred to the team for advice and support. We continue to support the Adult Social Care team with advice in relation to deprivation of capital and potential false statements to obtain direct payments. During the last year advice and support was provided to 23 cases. Of these, 11 have been referred to Legal for further action.

3. Proactive fraud prevention and awareness work

3.1 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. The following paragraphs outline some of the proactive work undertaken in the past year.

3.2 The Council has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting, and deterring fraud. Internal Audit has reviewed the sovereign strategy to align with best practice and to ensure a robust and consistent approach to tackling fraud. The strategy was updated to include revisions to the Fighting Fraud and Corruption Locally framework. The refreshed strategy will be brought to the next committee meeting for approval.

3.3 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats. This includes potential threats to payroll, staff frauds relating to home working and the ever increasing cyber threat.

3.4 One of the key controls in fighting fraud is having a strong culture in place with staff vigilant to the threat of fraud. In the past year, Fraud Awareness sessions have been delivered to Health and Adult Social Care staff and the Corporate Debt Team to raise awareness to the risk and indicators of Social Care fraud. Fraud Awareness sessions have also been delivered to Business Operations focussing on the risks to the Council of bank mandate fraud and cyber fraud. In addition, the team have published fraud bulletins raising awareness to emerging threats, in particular risks from the COVID19 pandemic. These have been published on the intranet and shared with high risk service areas. The team continue to monitor intel alerts and work closely with neighbouring councils to share intelligence and best practice.

National Fraud Initiative

3.5 The results from the biennial National Fraud Initiative exercise, overseen by the Cabinet Office, were received in January. The exercise compared Council records relating to payroll, pensions, creditors, Blue Badges and concessionary travel passes, with data from 1,300 public and private sector organisations used to help prevent and detect fraud and error.

3.6 The exercise identified over 11,000 data matches, which will be investigated for evidence of fraud and error. The results from the initial review of over 4,000 data matches include:

- The cancellation of a housing benefit claim due to an undeclared student status, resulting in an overpayment of £15,256 housing benefit;
- All housing benefit claims to DWP deceased data matches have been cleared with all claims matched already cancelled prior the report being received;
- All Housing waiting list the DWP deceased data matches have been cleared with all individuals being removed from the housing waiting list prior to the matches being received;
- All Resident Parking Permit to DWP deceased data matches have been cleared with no issues identified;
- 31 Concessionary Travel Passes have been cancelled with an estimated saving of £7,608;
- 63 Blue Badges have been cancelled with an estimated saving of £39,675;
- Initial enquiries are underway in respect of 7 cases where it was identified that a Brighton & Hove City Council employee is also on the payroll at another local authority or public body;
- The identification of a duplicate creditor reference resulting in the recovery of a duplicate payment of £758; and
- All payroll to creditor matches have been cleared and no issues identified.

Partnership working

3.7 We chair a local government fraud forum, comprised of partners from across the South East to discuss emerging threats and share intelligence. The Brighton & Hove Housing Investigators also participate in the Housing Tenancy Forum and Sussex Fraud Officers Group, to share intelligence and review emerging threats in the local area.

4. Housing Tenancy Fraud

4.1 The CIPFA Fraud & Corruption Tracker places Housing Fraud as the largest threat to local authorities. In response to this, the Housing Service continue to fund investigator resource from the Housing Revenue Account to tackle tenancy fraud and illegal subletting, and to ensure housing is provided to those most in need. The pandemic and working restrictions had significantly impacted on the Housing Investigator's ability to conduct interviews and visits, but we are now working with the Housing Service to progress cases. At the end of 2021/22, three Council properties had been returned to stock.

Reporting categories for irregularities

Reporting category	Description	Examples (not an exhaustive list)	Legislation / Policies (examples)
False representation	Knowingly making an untrue or misleading representation to make gain, cause loss or expose the Council to the risk of loss	Submitting incorrect expense claims; falsely claiming to hold a qualification	Fraud Act 2006
Failure to disclose information	Intentionally withholding information to make gain, cause loss or expose the Council to the risk of loss	Failing to declare pecuniary interests, or assets as part of a means tested assessment	
Abuse of position	Use of position to act against, or fail to safeguard, the interests of the Council or Surrey's residents	Nepotism; financial abuse of individuals receiving social care	
Theft	Misappropriation of assets (often cash) belonging to the Council or individuals under the Council's care	Removing cash from safes; removing individuals' personal items in care homes	Theft Act 1968
Corruption	Offering, giving, seeking or accepting any inducement or reward which may influence a person's actions, or to gain a commercial or contractual advantage	Accepting money to ensure a contract is awarded to a particular supplier	Bribery Act 2010
False reporting	Intentional manipulation of financial or non-financial information to distort or provide misleading reports	Falsifying statistics to ensure performance targets are met; delaying payments to distort financial position	Theft Act 1968; Financial Regulations; Procurement Standing Orders
Misuse of public funds	The use of public funds for ultra vires expenditure or expenditure for purposes other than those intended	Officers misusing grant funding; individuals misusing social care direct payments	
Procurement	Any matter relating to the dishonest procurement of goods and services by internal or external persons	Breach of the Procurement Standing Orders; collusive tendering; falsifying quotations	
Misconduct	Failure to act in accordance with the Code of Conduct, Council policies or management instructions	Undertaking additional work during contracted hours; inappropriate	Code of Conduct;

		use of Council assets and equipment	IT Security Policy
Poor Control	Weak local or corporate arrangements that result in the loss of Council assets or a breach of Council policy	Storing a key to a safe in the immediate vicinity of the safe	

