

INTERNAL AUDIT COUNTER FRAUD REPORT 2022/23

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 2022/23 carried within it a contingency budget for 'Irregularity and Special Investigations' of 120 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 2023

Resources

2.1 During the 2022/23 financial year, a total of six Internal Audit officers charged time to work on irregularity investigations amounting to 131 days.

2.2 The Counter Fraud team also monitors the Anti-Fraud inbox and a BHCC Confidential Reporting email address that was introduced in 2022, 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 36 allegations were received in the financial year (18 in the first half of the year and 18 in the second half). For comparison, 30 allegations were received in the previous financial year.

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

- 20 were raised by Council management;
- 6 originated from an external source to the Council;
- 4 were raised by employees;
- 1 was raised by Human Resources;
- 5 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 2022 to 31 March 2023

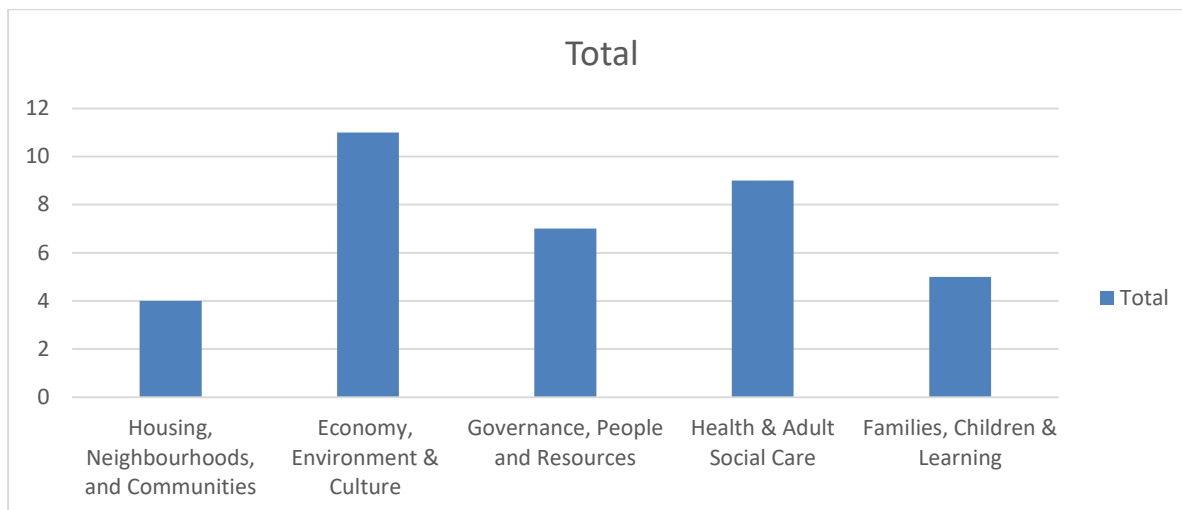
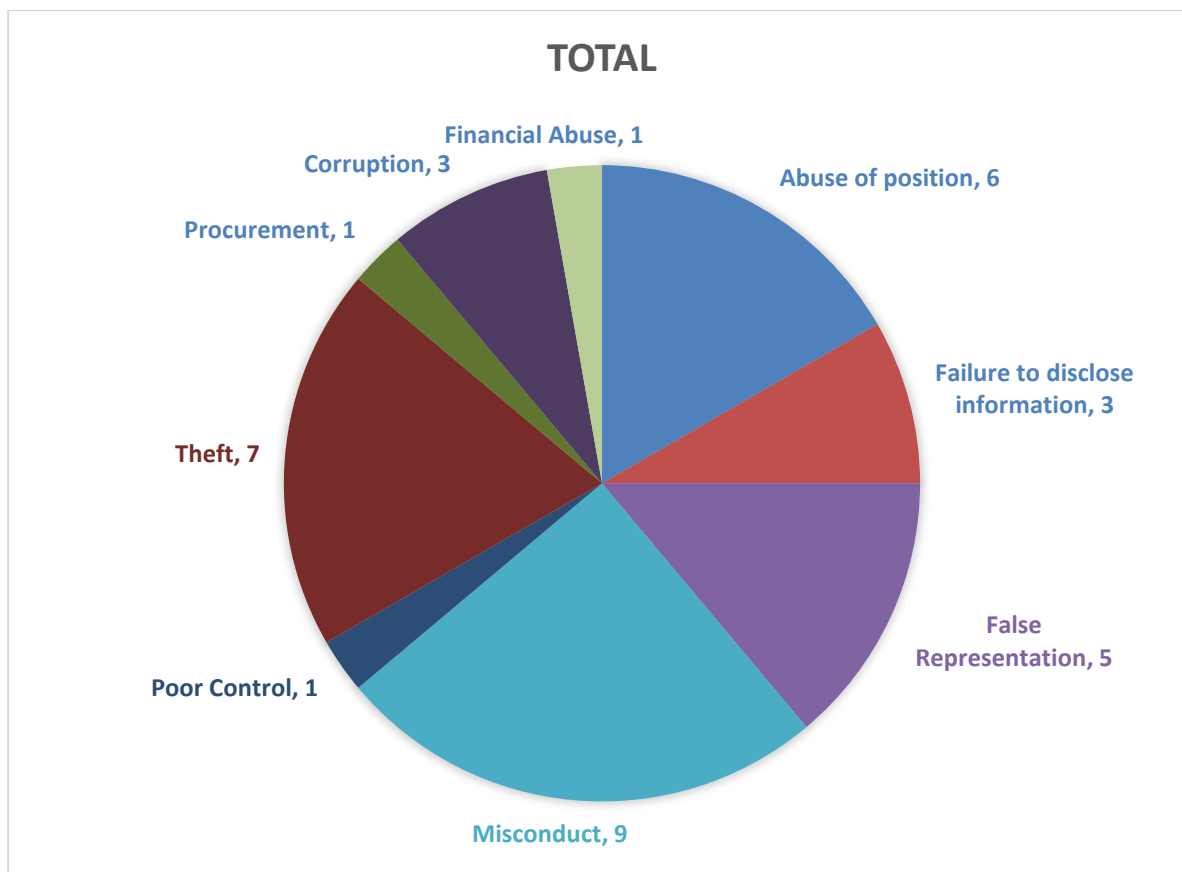


Figure 2. Summary of irregularities by type from 1 April 2022 to 31 March 2023



2.7 Of the 36 allegations received, 7 were closed with no action taken, 11 were dealt with through advice to management, 5 were taken forward for investigation by Internal Audit or support provided to a management investigation, 3 were referred to external agencies, and 7 were conduct or capability issues dealt by management with support from HR where appropriate. Three referrals are still active at the time of writing.

2.8 The following paragraphs provide a summary of the investigation and advisory activity completed by the Internal Audit Counter Fraud Team within the last 12 months:

2.8.1 **Adult Social Care** – Throughout the year the team have continued to support the Adult Social Care team with investigating a number of allegations of deprivation of capital and potential false statements to obtain direct payments.

2.8.2 **Corruption Allegation** - Advice was provided following an allegation from a service-user that adaptations completed on their property in 2015 were sub-standard and that Council officers had received unauthorised payments from the contractor. The review found no evidence to substantiate the allegation of wrongdoing and due to the historical nature of the allegation no further action was taken by Internal Audit. However, the service was advised to conduct a desktop review of work orders and completion statements.

2.8.3 **False Representation** - Advice was provided to the Parking Team following concerns of abuse of a 'My Account' by two residents when purchasing Visitor Parking Permits. The matter was subsequently managed by Parking and IT&D, and no further action was required by Internal Audit.

2.8.4 **Misconduct** - Advice was provided following concerns regarding misconduct by a member of school staff. HR colleagues and a Chair of Governors contacted Internal Audit seeking advice regarding the whistleblowing process and whilst advice was provided, the specific nature of the concerns did not fall within the remit of Internal Audit.

2.8.5 **Misconduct** – Following concerns being raised regarding covert surveillance by a member of staff, advice was provided to a service relating to the legality of surveillance and the requirements of the Regulatory Investigatory Powers Act.

2.8.6 **Bribery** - An investigation was carried out in relation to an allegation of potential bribery when awarding a contract to the Council. The referrer alleged that two former members of staff had received a bribe to award a contract to a preferred supplier. The investigation found that the two members of staff had left the employment of the Council prior to the contract being awarded and there was no evidence that they had been involved in the procurement exercise. Furthermore, the investigation did not identify any concerns that the supplier had acted inappropriately.

2.8.7 **Misconduct** - Initial enquiries were conducted and advice provided to a service following an anonymous referral that a member of staff was carrying out secondary employment. The service interviewed the member of staff, and no evidence of secondary employment was identified. The case was closed with no further action.

2.8.8 **Misconduct** - An investigation was undertaken relating to an allegation that a member of staff was letting their Council property via AirBnB. The individual claimed that they had not realised that this was a breach of their Council tenancy. The advert was subsequently removed, and the member of staff was issued a letter of expectation.

2.8.9 **Fraudulent use of a Purchase Card** - Advice was provided to a school following a Purchase Card being used for fraudulent transactions. A number of transactions had been flagged by the card issuer as fraudulent. The school are working with the bank to identify any fraudulent transactions and arrange recovery of funds. Following confirmation that the card had been cloned, advice was given on the secure use and safe storage of the card.

2.8.10 **Phishing Email** - Advice was provided to the Business Operations Team following a potential phishing email being received from a bank. The phishing email had been received purporting to be from the bank and asking the recipient to provide financial information. The email was flagged because it requested information relating to a card holder who no longer worked for BHCC. The email was identified as bogus and it was confirmed that no action to provide information had been taken in response to the request.

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 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 and was approved by the Audit and Standards Committee in November 2022.

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 bank mandate changes 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 also been delivered to Business Operations focussing on the risks to the Council of bank mandate fraud and cyber fraud. 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 2023. 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 2,000 non-creditor data matches, which are risk assessed and prioritised for investigation of fraud or error.

Partnership Working

3.7 We attend 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 A key focus area remains housing tenancy fraud and Local Taxation. The CIPFA Fraud & Corruption Tracker continues to place Housing Fraud as the largest threat to local authorities, and the volume of succession and application fraud in particular, has seen significant increases in recent years. Unlike other sectors, tackling this type of fraud is, however, not just about financial savings but the social benefits to the community.

4.2 In recognition of the continued threat facing the city, increased resource was committed by the Executive Director Housing, Neighbourhoods and Communities. This has resulted in an additional post funded from the Housing Revenue Account to which an external appointment was made in April 2023. This additional role will provide resource to enhance the reactive investigations whilst also providing capacity to deliver proactive and preventative aspects to enhance the tenancy fraud work. At the end of 2022/23, two 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 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	