

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: **AUDIT COMMITTEE**

Report of: **Assistant Director, Audit & Risk Management**

Date of Meeting: **19th October 2021**

Subject: **Birmingham Audit Annual Fraud Report 2020/21**

Wards Affected: **All**

1. Purpose of Report

- 1.1 The attached report updates the Audit Committee on how the Council has managed the risk of fraud during the period April 2020 to March 2021. It also seeks approval of the Anti-Fraud and Corruption Policy.

2. Recommendations

- 2.1 Members note the work undertaken during the year and draw assurance from the policies and procedures that are in place to prevent and detect fraud and error.
- 2.2 Members approve and endorse the Anti-Fraud and Corruption Policy.

3. Background

- 3.1 The annual fraud report is a standalone report to summarise how the risk of fraud is being managed by the Council.
- 3.2 The level of fraud across the UK economy and the public sector continues to remain of national interest.
- 3.3 Counter fraud and error work remains a priority for the Council and we continue to reinforce the 'zero tolerance' message.
- 3.4 Processes and procedures are in place for the prevention and detection of fraud and error.
- 3.5 The number of fraud and error referrals received has remained at a consistent level.
- 3.6 Social housing and Council Tax exemptions / discounts continue to remain high risk areas. We have achieved positive results in these areas.

- 3.7 The COVID-19 restrictions have impacted on aspects of our work, in particular the completion of formal interviews.

4. Legal and Resource Implications

- 4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

5. Risk Management and Equality Impact Assessment Issues

- 5.1 Risk management forms an important part of the internal control framework that the Council has in place.
- 5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

6. Compliance issues

- 6.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

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Birmingham Audit Annual Fraud Report 2020/21

19th October 2021

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Appendix A: Anti-Fraud & Corruption Policy

1. Background

- 1.1 In common with other public bodies the Council has a duty to protect the public purse. The purpose of this report is to update the Audit Committee on national and local fraud issues that arose during 2020/21, and in particular the role played by Birmingham Audit in the investigation, prevention and detection of fraud.
- 1.2 The standards of governance required within the public sector are high, and controls within systems must be effective to minimise the risk of fraud and error. However, compliance with these controls can sometimes be an issue. During a period of change internal controls can become unstable and ineffective, so it is important that any increased risk of fraud is identified and appropriately managed. Birmingham Audit is tasked with the investigation of suspected fraud and error and the identification of any system or procedural issues that allow such incidents to occur. We identify how fraud or other irregularity has been committed and make recommendations to management to address weaknesses in controls to reduce the chance of recurrence in the future. We also assist management in taking action against those found to have perpetrated fraud and in the recovery of any losses.
- 1.3 There remains a high level of interest in fraud nationally. This is fuelled in part by publicity around new and emerging fraud risks and the necessity to make scarce resources go as far as possible. Birmingham Audit is therefore continually looking to enhance its counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

2. Audit Committee

- 2.1 The Audit Committee has shown a keen interest in, and been supportive of, both proactive and reactive work within the Council to reduce levels of fraud and error. We regularly report on counter-fraud activity as part of our overall reporting on the work of the audit service. The Committee share the view that prevention, detection and deterrence are all important and have probed what actions management can take to prevent fraud entering the systems in the first instance.

- 2.2 We have assessed the Council's performance in countering fraud against the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption. We participate in CIPFA's annual survey of Corruption and Fraud and take on board any best practice arising from the survey results. We will continue to assess our performance and emerging risks to ensure that it is in line with expectations and align our resources and processes accordingly.

3. Resources for Counter Fraud Work

- 3.1 The Corporate Fraud Team (CFT) is a dedicated counter-fraud team within Birmingham Audit and is responsible for the investigation of suspected financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The team identify how fraud or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. In addition, where criminal activity has been committed, the team will refer the matter to the police and help seek redress from the perpetrators. The team will also investigate any issues of procedural non-compliance which may have a financial or reputational impact on the Council. A specialist team within CFT was established in 2010 to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. An Intelligence Hub was also created to support the work of the team. The resources available for counter fraud activities have remained largely unchanged since 2016/17 which has allowed us to continue with both reactive and proactive investigations as well as exploring new initiatives through increased use of data analytics.
- 3.2 In recent years we have re-prioritised our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try and identify and stop fraud and error. This has largely been achieved by enhancing our fraud monitoring capability to extract data from Council systems and develop analytical tests designed to detect fraud and error by flagging up any unusual patterns in transactions for further interrogation and investigation. This also helps to inform the routine audit assurance work in these key financial systems. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

4. Raising Awareness

- 4.1 The overall stance on fraud by the Council is set by our Anti-Fraud and Corruption Policy, Fraud and Corruption Response Plan, and the Whistle Blowing Code. Adopting a strategic response which commits to tackling fraud at all levels within the organisation, fits in line with the principles of good governance.
- 4.2 As part of our work in raising awareness of fraud throughout the Council we produce Fraud Spotlight, a bi-annual fraud bulletin covering topical fraud related issues. This is circulated throughout the Council via the intranet, and a school specific version is distributed to all schools via the Schools Noticeboard. We also periodically issue alerts whenever we become aware of a fraud threat in a particular area, and review and revise corporate policies and procedures to respond to particular issues. We continue to explore the use of other media to help raise awareness of fraud as well as participating in local counter fraud networks to exchange examples of best practice.
- 4.3 During the year we have provided fraud awareness training. This has included areas such as the Resident Involvement Team in Housing and the City Housing Liaison Board.
- 4.4 We continue to work closely with the City Housing Directorate to ensure that staff involved in dealing with housing applications and tenancy issues are aware of the risks of fraud in this area. We have also established a good working relationship with Revenues & Benefits in tackling Council Tax related fraud and dealing with any associated benefit issues which may arise from our investigations.

5. Impact of COVID-19

- 5.1 The COVID-19 restrictions impacted on many aspects of our work, in particular the investigation of social housing fraud, which by its very nature, requires Investigators to spend a large proportion of their time visiting Council properties and interviewing tenants. Progressing Corporate Fraud investigations where it was necessary to interview employees or third parties, would also be similarly impacted.

- 5.2 In responding to this, and the need for all staff to work from home, we re-positioned ourselves to undertake more desk based proactive work. Enquiries had to be largely undertaken over the telephone, by e-mail or via Teams, which is not ideal but has still allowed us to progress cases, particularly those identified through All City Risking (ACR); see 8.2. However, there has been a longer term impact in not being able to conclude some cases either through the legal or disciplinary process. This is reflected in the results that we have achieved.
- 5.3 The pandemic, and the resultant response has seen huge sums of financial support being distributed through speedily arranged processes and systems, which has been an ideal opportunity for fraudsters to attempt to take advantage. We responded to this by having an early input into the planning for the distribution of the funding to support businesses. The grant verification processes established by the Council have been largely successful in preventing and deterring fraudulent applications. We have worked closed with both Revenues & Benefits and Inclusive Growth to investigate those applications which were deemed suspicious. We have also been proactive in issuing alerts of potential scams being perpetrated by fraudsters wishing to take advantage of the crisis.

6. Levels of Fraud

- 6.1 It is difficult to measure the level of fraud. Not all fraud is formally reported, some will go undetected and some will be prevented. In some cases, it is difficult to quantify a value. Similarly, some losses can be attributed to error, misinterpretation or poor management. A good example of this is contract management, where contractors seek to maximise their profits by exploring potential loopholes within contracts, or where a procurement process has been intentionally circumvented, resulting in items being supplied but not necessarily at the best price. The level of identified fraud in any particular year can vary significantly, depending on the nature and outcome of the cases investigated.

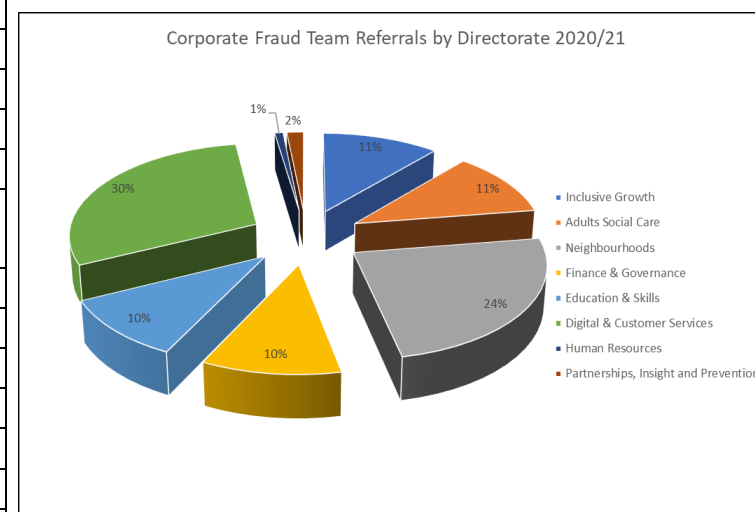
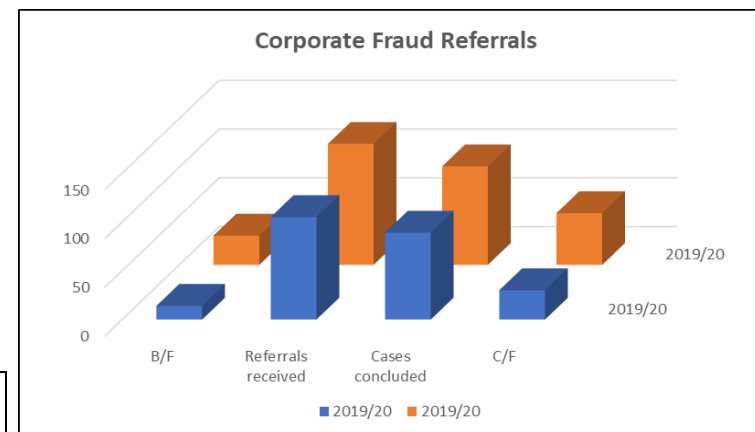
- 6.2 The Annual Fraud Indicator 2017, which is the last set of government sanctioned estimates, estimates that fraud costs the public sector £40.3bn annually, with £7.3bn of this total being lost in local government. The latest Fraud and Corruption tracker completed by CIPFA estimates the total value of fraud for local authorities in the UK for 2019/20 to be approximately £239.4m.
- 6.3 It is difficult to place a monetary value on our anti-fraud activity during 2020/21, particularly in terms of our work in relation to prevention and deterrence. Some quantifiable losses which are identified through investigation may be recovered, and work on the associated system issues may prevent and deter further losses. During 2020/21, the level of fraud/error investigated by CFT contained a notional value totalling just over £256,000 (£235,000 in 2019/20). This excludes application-based fraud (Social Housing and Council Tax) which is covered in Section 7 of this report.
- 6.4 During the year CFT received information in respect of 124 potential irregularities (105 in 2019/20) from a variety of sources. Referrals can cover a wide range of issues, some of which lead to major investigations requiring significant resource, whilst others are referred to the directorates to deal with. The Council's Financial Regulations place a responsibility on all employees to report suspicions of financial irregularity, and the revamped whistleblowing procedures have encouraged more staff to make disclosures. We regularly liaise with Legal Services to discuss the progress on those whistleblowing cases that are referred to us for investigation. We also receive information from various external sources, including members of the public, often using our dedicated Fraud Hotline. Additional referrals may arise when we raise awareness of a particular issue, or when we identify a specific issue through data matching exercises such as the National Fraud Initiative (NFI). During the year we received several referrals concerning potential breaches of the Staff Code of Conduct, which may not necessarily constitute fraud, but can nevertheless pose a potentially significant risk to the Council's reputation.

The table below summarises the reactive investigations activity of CFT (excluding Application Fraud) during the year:

	2019/20	2020/21
Number of outstanding investigations at the beginning of the year	14	30
Number of fraud referrals received during the year	105	124
Number of cases concluded during the year	89	101
Number of investigations outstanding at the end of the year	30	53

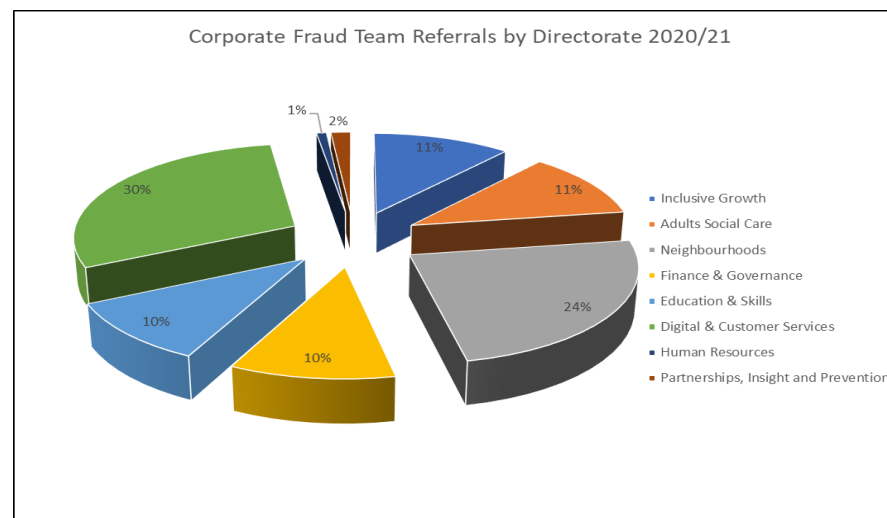
The referrals can be categorised by fraud type as follows:

FRAUD TYPE	REFERRALS RECEIVED 2020/21
Employee Revenues Related Fraud, i.e. Council Tax, rents, benefits	0
External Revenues Related, i.e. Business Rates	3
Procurement Related Fraud, i.e. purchasing, contracts, creditor payments	5
Banking Related Fraud, i.e. payment diversion, cheques	6
Payroll/Recruitment Related Fraud, i.e. salary overpayments, false absenteeism, overclaimed hours, false employment history	36
Grants to External Organisations, i.e. support through grants, loans	44
Social Care, i.e. Direct Payments	6
Computer Misuse, i.e. password sharing, unauthorised systems access	2
Employee Code of Conduct	10
Theft	0
Other	12
Total	124



The referrals can be categorised by service area as follows:

SERVICE AREA	No. OF REFERRALS
Inclusive Growth	14
Adults Social Care	14
Neighbourhoods	30
Finance & Governance	13
Education & Skills	13
Digital & Customer Services	37
Human Resources	1
Partnerships, Insight and Prevention	2
TOTAL	124



- 6.5 Each referral is assessed, and a decision made as to whether an audit investigation is necessary or whether the matter is best left to local management to deal with. This enables us to concentrate our resources on the most urgent or high-profile cases. The split between different types of referral in any year can be affected by a number of factors, such as a particular proactive fraud exercise, fraud awareness initiative or corporate action. Some of the issues that are referred to us are not necessarily fraud, such as those involving Computer Misuse or breaches of the Employee Code of Conduct, but nonetheless, any procedural non-compliance can lead to fraud being committed and therefore we ensure these matters are investigated and dealt with appropriately.

- 6.6 During the year we have continued to receive referrals relating to payroll overpayments. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been considered, particularly in respect of any Code of Conduct issues where it is established that the employee has failed in their duty to report the fact that they were being overpaid, or where managers have been negligent in their responsibilities. We have continued with our proactive exercises, looking at Dormant Activity on Systems by Current Employees, is helping to identify salary overpayments at an early stage, see 6.10.
- 6.7 As a result of the COVID Pandemic we are investigating a number of suspicious support grant applications. We are working closely with both Revenues & Benefits and Inclusive Growth to investigate those applications which were deemed fraudulent.
- 6.8 During the year we have received details of four attempted payment diversions. There has been a national increase in the number of instances and sophistication of this type of fraud. CIPFA within their 2020 Fraud and Corruption Tracker estimate that cases have increased from 322 in 2018/19 to 344 in 2019/20.
- 6.9 We have continued to see social care related frauds reported to us. These were mainly in respect of Direct Payments and were reported to us either by members of the public or Adults Social Care staff. We continue to work with the Directorate in ensuring that a more robust approach is taken in relation to tackling potential fraud in this area.
- 6.10 We have continued to enhance our capability in the use of data analytics and now periodically run reports from some of the main financial systems to proactively identify potential fraud and error. Utilising a Corporate Fraud Risk Assessment developed in the previous year, we have carried out proactive exercises looking at various transactions from both the Payroll and Accounts Payable systems. In addition, we have looked at patterns of attendance on the Borer Time Recording system, Purchase Card Expenditure, Activity on Systems by Leavers, and Dormant Activity on Systems by Current Employees. These projects not only help to detect fraud and error, but also highlight areas of poor practice and procedural non-compliance. Through our liaison with other local authorities and professional bodies, we continually look to identify emerging fraud risks for inclusion in our programme of proactive work.

- 6.11 The team identify how fraud, or other irregularity, has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of reoccurrence in the future. In carrying out our investigations we have regard to the various outcomes available, whether this is internal disciplinary action against a Council employee, recovery of any funds, or referring the matter to the police for possible criminal action. We continue to work with Human Resources and Legal Services colleagues to ensure the best outcome for the Council.

7. Application Fraud

- 7.1 The re-prioritisation of our work in recent years in response to legislative changes and to reflect those areas seen as high risk, has seen more resources being committed to tackling application based fraud relating to Social Housing and Council Tax, both of which are commonly acknowledged nationally as being high risk areas. The CIPFA Fraud & Corruption Tracker estimated that in 2019/20, the value of Social Housing fraud across the UK was £122.4m (£135.6m 2018/19) and Council Tax related fraud was £35.9m (£30.6m in 2018/19).

Social Housing Fraud

- 7.2 During the year we have continued to work closely with the City Housing Directorate, to investigate and remedy all aspects of social housing fraud, including illegal sub-letting, non-residency, false applications and Right to Buy. We also continue to provide support in the use of the data warehouse to help them verify details submitted on housing / homeless / Right to Buy applications. Our primary objectives have always been:
- a) to recover social housing properties where investigations find that they are not being used as intended; and
 - b) to protect the gateway for social housing by preventing fraudulent applications entering the system.

- 7.3 We continue to receive a high number of notifications relating to potential social housing fraud. Through our investigations, we recovered 14 Council and Registered Provider properties (59 in 2019/20) with a combined indicative value of £1,302,000*. The properties recovered are returned to the housing stock to enable those with a genuine need for social housing to be provided with a home. We also cancelled 591 housing applications prior to letting (667 in 2019/20) with a combined indicative value of £1,914,840**.

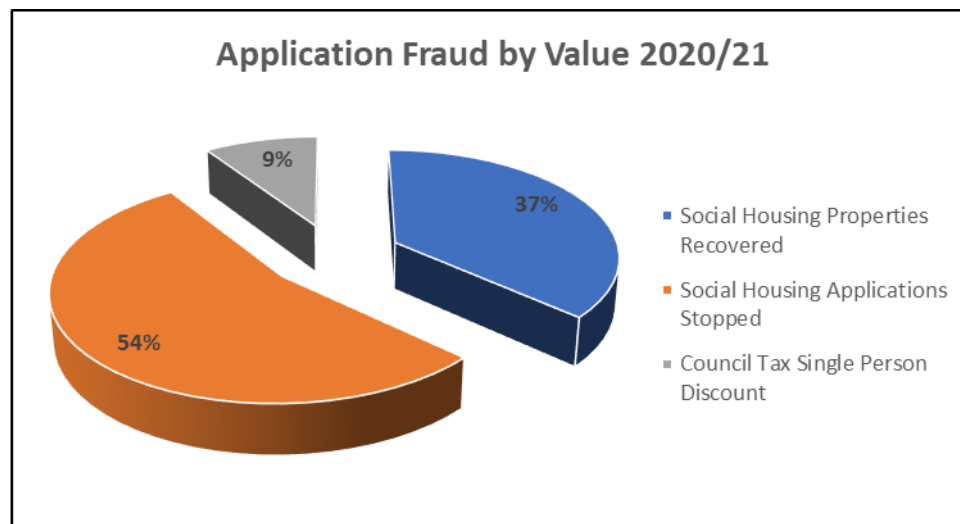
* Based on an indicative cost of £93,000 per property, source: Cabinet Office

** Based on an indicative cost of £3,240 per application, source: Cabinet Office

- 7.4 The Council's Prosecution & Sanctions Policy and legislation such as the Fraud Act 2006 and the Prevention of Social Housing Fraud Act 2013 can be used to prosecute offenders, whilst the Proceeds of Crime Act 2002 can be used to recover losses. Although prosecuting offenders and publicising successful convictions act as a valuable deterrent and helps raise awareness of the problem of tenancy fraud, it is a time-consuming process and is not always possible because of lack of evidence or documentation. We also support Housing in bringing civil proceedings to regain possession of properties where we have found evidence that the tenants are not using the property as their main home.
- 7.5 There are obvious social benefits in ensuring that only those with the greatest need are allocated social housing, but there is also a real financial saving from preventing and/or stopping social housing fraud, particularly in respect of providing temporary accommodation, and losing valuable housing stock through fraudulent Right to Buy applications. We will continue to work with the directorate to further develop work in this area.

Council Tax Fraud

- 7.6 Since April 2013, local authorities have been responsible for administering their own Council Tax Support schemes and need to ensure that safeguards are in place to minimise fraudulent claims. The Council Tax Reduction Schemes - Detection of Fraud & Enforcement (England) Regulations 2013 authorise the investigation of offences in relation to Council Tax Reduction Schemes and also create offences and enable penalties to be imposed in connection with these schemes. These are reflected in our Prosecution & Sanctions Policy.
- 7.7 We continue to identify fraudulent claims for Single Person Discount, as well as for some of the various Council Tax exemptions, such as those given to students, people in residential care homes, and cases awaiting probate to be granted. As a result of this, a total of £332,000 of adjustments in Council Tax liabilities were identified (£429,144 in 2019/20).



8. Intelligence

- 8.1 We continue to enhance our capability by developing our data warehouse facility with the addition of more data sets, not only with Council data, but also those of our partners and neighbouring authorities. This provides us with a sophisticated data resource to enhance our intelligence function in assisting our investigations. We have extended access to the facility to a variety of frontline services across the Council as well as to our external partners, including law enforcement agencies, where it provides a comprehensive means of verifying information to help tackle crime and disorder. In Housing it has been embedded into their verification checks on applications and tenancy records, helping to combat social housing fraud. It is also used by Trading Standards, Taxi-licensing and Schools Admissions. By extending access to the data warehouse, we have been able to reduce the reliance on our intelligence function to provide verification checks.
- 8.2 The development of ACR (All City Risk), which matches data contained in housing applications with other Council held data, allows us to identify potential fraud and error within 24 hours. This has been particularly effective in identifying fraudulent claims for Council Tax Single Person Discounts and fraudulent housing applications. As indicated above, the process has reduced the amount of fraud or error that needs a formal investigation as it will have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error.

9. National Fraud Initiative (NFI)

- 9.1 During the year we continued work on the NFI. The NFI data match is a bi-annual exercise undertaken by the Cabinet Office which matches a variety of data across public bodies for the purpose of identifying fraud and error.
- 9.2 The NFI 2018/2019 exercise identified fraud and error in our systems totalling £687,286. The Cabinet Office also used the exercise to calculate savings achieved from the information provided, for example blue badges cancelled. Savings for the 2018/19 exercise are estimated to be £307,625 for the Council.

- 9.3 In January 2021 we received the matches returned from the latest exercise (NFI 2020/2021) which was more than 36,500 matches. The NFI data match is a bi-annual exercise undertaken by the Cabinet Office which matches a variety of data across public bodies for the purpose of identifying fraud and error. The Cabinet Office does not expect all of these to be checked and provide guidance on which they recommend are investigated. Whilst the matches may be an indicator of fraud or error, in most cases, the match can be attributed to outdated or incorrect data, but nevertheless still needs to be checked and if necessary, records put right. Due to resourcing, we must pass the majority of these matches to the relevant service area for them to review, particularly those relating to Housing Benefit and Housing Tenancies. So far, we have processed just over 2,400 matches from the current exercise identifying fraud and error of over £71,000 mainly in respect of Housing Benefit. A further 13,935 matches are currently under review and work will continue on the remaining matches in the coming months.
- 9.4 Due to an update to the 2006 NHS Act legislation personal budgets, residential care homes and social care data now falls into the definition of patient data and therefore cannot be matched, however NFI are consulting with the relevant government departments and legal teams (Department of Health and Social Care (DHSC) and Cabinet Office lawyers) to change legislation to enable this data to be matched again in the future.
- 9.5 Revenues have also taken the opportunity to access the business grant pre and post assurance checking facility offered by the Cabinet Office this year.
- 9.6 We have continued to have discussions with the Cabinet Office to seek ways of improving NFI, particularly as we have developed the capability to run our own matches on a more regular basis.

10. Anti-Fraud & Corruption Policy

- 10.1 The Anti-Fraud & Corruption Policy, Appendix A, sets out the Council's commitment to tackling fraud and corruption. It also makes it clear to all concerned that appropriate and decisive action will be taken against those committing or attempting to commit, fraudulent or corrupt acts against the Council. In order for the Council to be effective in its approach to dealing with the problem of fraud and corruption it has set about ensuring that it creates a culture of 'zero tolerance' rather than indifference to such matters.
- 10.3 The policy has recently been reviewed and updated. The Audit Committee are requested to approve and endorse the policy.

11. Conclusions

- 11.1 Countering fraud and error remains a priority for the Council. We continue to work on reinforcing the message of 'zero tolerance' through prevention, detection and deterrence.
- 11.2 As part of our investigatory work we continue to highlight weaknesses in systems and procedures and make recommendations to assist management in addressing these issues. We therefore expect management to act decisively and implement our recommendations and if necessary, take robust action against employees who chose not to comply.
- 11.3 Whilst it is difficult to assess the Council's overall exposure to the risk of fraud and error, it is safe to say that there will always be an increased risk in those areas where systems are weak, or where controls are allowed to be circumvented. Managers must remain alert to this risk and take responsibility for assessing it within their business area by ensuring that robust procedures are in place and are followed. This is more important than ever with fewer resources available.

- 11.4 Our continued commitment to tackle Social Housing fraud has not only delivered financial benefits to the Council, by freeing up scarce housing resources, it also provides huge social benefits by helping to ensure that these resources are allocated to those most in need.
- 11.5 Our commitment to enhancing our data analytics capability is key to identifying and stopping fraud and error by proactively identifying anomalies for further investigation.
- 11.6 The expansion of our data warehouse continues to provide benefits not only in terms of detecting and preventing fraud and error, but also in the effective delivery of Council services and helping to tackle crime and disorder.
- 11.7 We will continue to work to raise awareness of general and specific risks of fraud, and to ensure that everyone knows how to report their concerns.

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Birmingham Audit

ANTI-FRAUD
&
CORRUPTION POLICY

Managing the Risk of Fraud

Review Date: September 2021

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1. Foreword

- 1.1 The United Kingdom public sector maintains high standards of ethics and has a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence. Birmingham City Council shares these high standards and is committed to protecting the public funds entrusted to it. Although we have good policies and procedures they are sometimes ignored: much of our fraud happens when non-compliance with procedures leads to simple checks being neglected. The minimisation of losses to fraud and corruption is essential to ensure that resources are used for their intended purpose to provide services to the citizens of Birmingham.
- 1.2 The public is entitled to expect any local authority to conduct its affairs with integrity, honesty and openness, and to demand the highest standards of conduct from those working for it. This Anti-Fraud and Corruption Policy forms part of the governance arrangements of Birmingham City Council. It outlines the City Council's commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds.
- 1.3 The Policy is based on a series of comprehensive and inter-related procedures, designed to prevent, detect and deter fraud and to take effective action against any attempted or actual fraudulent act affecting Birmingham City Council. The policy also satisfies the legislative requirements to have effective arrangements for tackling fraud and conforms with professional guidance laid down in the Public Sector Internal Audit Standards.

2. Introduction

- 2.1 Birmingham Audit, in delivering the Internal Audit function to the City Council, has the key role of monitoring the effectiveness of internal controls in operation. This also includes carrying out investigations into suspected cases of fraud or corruption. Fraud and corruption can be reported in a number of different ways which are outlined in the Fraud and Corruption Response Plan.
- 2.2 The purpose of this Policy is to outline Birmingham City Council's approach, as well as defining roles and responsibilities, for dealing with the threat of fraud and corruption, both internally and externally. It covers:
- councillors
 - employees
 - agency staff
 - contractors
 - consultants
 - suppliers
 - service users
 - employees and committee members of organisations funded by the City Council
 - employees and principals of partner organisations

In addition to the above, the City Council also expects members of the public to be honest in their dealings with the Council.

2.3 This policy sets out the City Council's commitment to tackling fraud and corruption. It also makes it clear to all concerned that appropriate and decisive action will be taken against those committing or attempting to commit, fraudulent or corrupt acts against Birmingham City Council.

2.4 In order for the City Council to be effective in its approach to dealing with the problem of fraud and corruption it has set about ensuring that it creates a culture of 'zero tolerance' rather than indifference to such matters.

3. Corporate Framework and Culture

3.1 Birmingham City Council has a range of interrelated policies and procedures that provide a corporate framework to help counter fraudulent activity. These have been formulated in line with appropriate legislative requirements and professional best practice, and include:

- City Council Constitution
- Codes of Conduct for members and employees
- Standing Orders and Financial Regulations
- Accounting procedures and records
- Sound internal control systems, including specific service area requirements
- Effective internal audit, provided by Birmingham Audit
- Effective recruitment and selection procedures
- Disciplinary Policies and Procedures
- Fraud and Corruption Response Plan
- Guidance for dealing with benefit and council tax fraud and blue badge fraud
- Social Housing Fraud Prosecution and Sanction Policy
- Council Tax Fraud Prosecution and Sanction Policy
- Whistle Blowing and Serious Misconduct Policy
- The Regulation of Investigatory Powers Act (RIPA) Procedure
- Data Matching Policy
- Anti-Money Laundering Policy
- Training
- The Fraud Act 2006
- The Bribery Act 2010
- Acceptable Usage Policy
- General Data Protection Regulation (GDPR)

3.2 The City Council believes that a culture of honesty and openness is a key element in tackling fraud. The codes of conduct for members and employees are based on 10 general principles which expand on the Nolan Principles of Standards in Public Life¹. Where members or employees fail to adhere to these codes appropriate action will be taken against them.

¹ The 10 General Principles on which the codes of conduct are based are Selflessness, Honesty and Integrity, Objectivity, Accountability, Openness, Personal Judgement, Respect for Others, Duty to Uphold the Law, Stewardship, and Leadership. These General Principles can be found as an annex to the City Council Constitution Volume B, Part 3 (A&B) Members Code of Conduct.

- 3.3 The Fraud Act 2006 describes fraud as the intention to make gain or cause loss under 3 main headings; by false representation; failing to disclose information; or abuse of position. There are further subheadings of fraud described including; possession of articles for use in fraud; making or supplying articles for use in frauds; participating in fraudulent business; or obtaining services dishonestly.

4. Prevention

- 4.1 The City Council recognises that fraud and corruption are costly, both in terms of reputational risk and financial losses. The prevention of fraud is therefore a key objective of the authority and fundamental roles and responsibilities are outlined below.

Employees of Birmingham City Council

- 4.2 Birmingham City Council recognises that employees are often the first line of defence in preventing fraud. A key preventative measure in that fight is the effective recruitment of employees.
- 4.3 Employee recruitment is undertaken in accordance with the City Council's policies for Recruitment and Selection. Written references should be obtained before formal employment offers are made, wherever possible regarding the known honesty and integrity of potential employees. In this regard temporary employees should be treated in the same manner as permanent employees.
- 4.4 For new employees working within certain areas of the City Council, such as the Benefits Service, checks should be undertaken to see whether the person(s) are or have been falsely claiming Housing Benefit and/or Council Tax Reduction.
- 4.5 There is a procedure in place to check the identity and right to work of all potential employees. Some posts, due to the nature of the work and potentially working with vulnerable people, also require a Disclosure and Barring Service (DBS) check to confirm whether any potential employee has a criminal record and if this would conflict with the post applied for.
- 4.6 All employees must abide by the relevant City Council Employee Code of Conduct, which sets out requirements on personal conduct. The Code of Conduct applies to all employees except school based employees, JNC contracted officers, staff employed on Soulbury terms and conditions, youth and community workers, adult education workers (only those on BAES terms and conditions), all of whom are covered by their own codes of conduct. Where applicable employees are also expected to follow the codes of conduct laid down by their respective professional institutes.
- 4.7 Financial Regulations place the responsibility for fraud prevention on all employees. Staff should therefore be alert to the possibility of fraud and to report any concerns. Birmingham City Council has a Whistle Blowing and Serious Misconduct Policy in place to assist employees in reporting concerns about fraud and other issues without fear of harassment or victimisation.

- 4.8 The City Council has in place disciplinary policies and procedures for all employees. Those found to have breached the Code of Conduct will be dealt with in accordance with these policies and procedures. Where criminal activity is suspected or found, the matter will be referred to the police for investigation and possible prosecution, in accordance with the Fraud and Corruption Response Plan. In addition, in relevant cases, recompense will be sought from those who are found to have carried out fraudulent acts.
- 4.9 If an employee is charged with or convicted of a criminal offence, including being given a caution, in their private life, for instance; benefit fraud or abuse of a disabled parking badge; the employee must immediately notify the City Council in writing. If the employee is found to have breached their code of conduct, disciplinary action may be taken. Failure to notify the Council will in itself constitute grounds for disciplinary action.
- 4.10 Under the City Council's Standing Orders, employees must operate within Section 117 of the Local Government Act 1972, regarding the disclosure of financial interests in contracts relating to the Council, or the non-acceptance of any fees, gifts, hospitality or any other rewards, other than their proper remuneration. The Bribery Act 2010 makes it an offence to request, agree to receive, or accept a bribe. It is also an offence to offer, promise or give a bribe.
- 4.11 Birmingham City Council policies and procedures support compliance with the Bribery Act. Codes of Conduct set out the acceptable conduct for both members and employees, with regard to personal interests and the receiving and giving of gifts and hospitality. Through the codes' strong ethical framework; along with transparency and scrutiny in decision making, clear procurement rules and standards committees, the City Council aims to ensure that employees and members comply with anti-bribery legislation. Non-compliance by an employee or member may be perceived as bringing the Council into disrepute or using their office for personal gain and could result in further action being taken.

Council Members

- 4.12 Members are required to operate within:
- Birmingham City Council's Member Code of Conduct
 - The Local Authorities (Model Code of Conduct) Order 2007
 - Sections 94-96 of the Local Government Act 1972
 - Local Authorities (Members' Interest) Regulations 1992 (SI 618); and amendment SI 1996/1215 ²
 - City Council Standing Orders

² All Acts, Codes and Regulations are available at www.legislation.gov.uk

- 4.13 The Member Code of Conduct sets out what is required of Members when conducting, or giving the impression that they are conducting, the business of Birmingham City Council. Because of their potentially influential position Members should not use, or be perceived to use, their office for personal gain, and should ensure that their actions are not perceived to bring the City Council into disrepute.
- 4.14 These matters and other guidance are specifically brought to the attention of members at their induction and are in each member's handbook. They include rules on the declaration and registration with Legal Services; of potential areas of conflict between members' council duties and responsibilities, and any other areas of their personal or professional lives.
- 4.15 Birmingham City Council has in place an Overview and Scrutiny Committee. Its responsibilities include the review of decisions and actions undertaken by the City Council. Any matter arising from this process, in which fraud is suspected, can be referred to Birmingham Audit for independent investigation.
- 4.16 The City Council has established a Standards Committee, which has independent representatives within its membership, to examine issues of misconduct by members.
- 4.17 The City Council's Audit Committee has included within its rules of governance a responsibility to review the effectiveness of internal audit including work in respect of fraud.
- 4.18 The Local Government Act 2000 requires all members to give a written undertaking to comply with the Code of Conduct, if they are to remain on the Council.

Internal Control Systems

- 4.19 The City Council has Financial Regulations & Standing Orders, Accounting Procedures, and various rules and Codes of Conduct in place. Employees are obliged to comply with these requirements when dealing with City Council matters.
- 4.20 The Director of Council Management has a statutory responsibility under Section 151 of the Local Government Act 1972, to ensure proper arrangements are made for the City Council's financial affairs. In addition, under the Accounts and Audit (England) Regulations 2011, the Council is required to maintain an adequate and effective internal audit of its financial records and systems of internal control.
- 4.21 The City Council has sound financial systems and procedures, which incorporate efficient and effective internal controls. For instance, "separation of duties" is considered a fundamental control in such systems, especially when involving significant transactions. Directors are responsible for maintaining effective internal controls including the prevention and detection of fraud and other illegal acts. Birmingham Audit will monitor and report upon these controls.

Working with Others

- 4.22 There are a variety of arrangements in place, which assist and support the regular exchange of information between Birmingham City Council and other Local Authorities and Agencies, for the purpose of preventing and detecting fraud. These involve National, Regional and Local Networks of Investigators.
- 4.23 Birmingham City Council is a member of the National Anti-Fraud Network (NAFN). NAFN provides access to information relating to fraud within the public sector. Fraud intelligence is collated and circulated to NAFN members, and an information service is provided to assist in the more effective investigation of fraud. Birmingham Audit makes extensive use of these services.
- 4.24 As technologies develop, there is an ever increasing need to take advantage of the processing and analysis of data stored throughout Birmingham City Council and beyond. This enables information and intelligence to be generated, which is a recognised means of preventing fraud and corruption. Birmingham Audit has a data warehouse facility which enables data matching, data mining and new and innovative ways of carrying out other audit functions. Access to the data warehouse has been extended to some frontline services to provide them with the facility to check information provided on application forms for Council services. This is recognised as an important tool in the prevention and detection of fraud. All data matching is carried out within the requirements of legislation and the Information Commissioner.
- 4.25 Birmingham City Council has a Fraud Hotline (0121 303 4130) to allow members of the public to report individuals who are suspected of committing fraud. There are a number of ways in which Birmingham Audit can be contacted to report concerns of fraud and corruption, all of which are outlined in the Fraud and Corruption Response Plan.

5. Detection and Investigation

- 5.1 It is the responsibility of Directors and managers to maintain good control systems and procedures, and to ensure that all employees comply with the instructions contained therein.
- 5.2 Investigations are carried out in response to referrals of potential fraud. In addition, proactive exercises target service areas identified as being at a high risk from fraud. Data from different sources available within the City Council is matched as an effective way to identify potential fraud and error. This is done in compliance with Birmingham City Council's Data Matching Policy.
- 5.3 Directorates must report to Birmingham Audit all suspected irregularities which could be instances of fraud. This is essential to our approach to fraud and corruption and ensures:
- consistent treatment of information regarding fraud and corruption
 - proper investigation by an independent and experienced audit team
 - the optimum protection of Birmingham City Council's interests

Where appropriate, service areas must:

- report allegations swiftly and follow the guidance provided
- where appropriate, contact other agencies, e.g. Police
- report to senior management, and where appropriate, support Birmingham City Council's disciplinary procedures

5.4 When information relating to potential fraud or corruption is obtained, it is reviewed and subject to a risk assessment. Some referrals do not warrant further investigation whilst others may be better dealt with as management issues; or a full investigation may be needed.

5.5 Depending on the nature and anticipated extent of the information obtained, Birmingham Audit will normally work closely with:

- Directorate Management
- Human Resources
- Legal Services
- Other agencies, such as the Police, the Department for Work and Pensions, and other local Authorities

This is to ensure that all allegations and evidence supplied are properly investigated and reported upon, and that where possible, losses are recovered for the City Council. Where appropriate this will include the use of Proceeds of Crime legislation.

5.6 The Whistle Blowing and Serious Misconduct Policy provides clear guidance for individuals to raise any concerns of malpractice within the City Council, including schools, without the fear of being penalised or victimised. The City Council will take appropriate action to protect anyone who has raised a concern in 'good faith'. The Code deals with the reporting of fraud or alleged fraud through formal channels. The Code also includes making disclosures to external bodies if there is an unsatisfactory outcome to a disclosure made internally.

5.7 Where it is found that a City Council employee has been involved in fraudulent activity they will be subject to Birmingham City Council's disciplinary procedures.

5.8 Where financial non-compliance and wrongdoing is discovered relating to employees, members, or grant aided external organisations, the matter may be referred to the police in accordance with the Fraud and Corruption Response Plan. Such decisions will be made by Birmingham Audit. Referral to the police will not necessarily prevent action under the disciplinary procedure.

5.9 The City Council's External Auditor also has powers to independently investigate fraud and corruption.

6. Deterrence

- 6.1 There are a number of ways in which we deter potential fraudsters from committing or attempting fraudulent or corrupt acts, whether they are inside or outside of the City Council. These include:
- Publicising the fact that Birmingham City Council will not tolerate fraud and corruption by promoting this at every appropriate opportunity, e.g. statements in contracts, on claim forms, and in publicity literature.
 - Acting quickly, efficiently, and decisively when fraud and corruption is suspected and proven, e.g. the termination of contracts, the dismissal and prosecution of offenders.
 - Taking action to recoup the maximum recoveries (including losses and costs) for Birmingham City Council, e.g. through agreement, court action, penalties, insurance, superannuation etc. Where appropriate the Proceeds of Crime Act will be used to maximise the penalty suffered by the fraudster, and the level of recovery by the City Council.
 - Having sound internal control systems, that still allow for innovation and calculated risk, to create maximum opportunities for the City Council whilst minimising the potential for fraud and corruption.
- 6.2 It is the responsibility of Corporate Directors to communicate the Anti-Fraud and Corruption Policy to management and employees and to promote a greater awareness of the risk of fraud within their Directorates.

7. Raising Fraud Awareness

- 7.1 Birmingham City Council recognises that the success and credibility of its Anti-Fraud and Corruption Policy will depend largely on how effectively it is communicated throughout the organisation and beyond. Every opportunity will be taken to bring it to the attention of employees, members and other stakeholders. The policy will also be shown on the City Council's web page and be available on the City Council Intranet, along with the Fraud Awareness Procedure.
- 7.2 Birmingham City Council encourages induction training, particularly for employees involved in internal control systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced. Training makes it clear that there may be a possibility of disciplinary action being taken against employees who ignore such guidance.
- 7.3 The officers involved in the review of internal control systems and investigative work will be properly and regularly trained. The training plans of Birmingham Audit will reflect this requirement.
- 7.4 Birmingham Audit offers tailored sessions in Fraud Awareness, to promote the Anti-Fraud and Corruption Policy and to give guidance on fraud prevention and detection. In its regular newsletter, Fraud Spotlight and other ad-hoc publications, Birmingham Audit publicise fraud related issues as well as giving details of the outcomes of some of its investigations. This newsletter is available on the Intranet.

8. Conclusions

- 8.1 Birmingham City Council has put into place a number of arrangements to protect itself from the risk of fraud. However, in the current climate of change there are issues that will increase the risk of loss. Changes in structure, systems and the reduction of staff, as well as external pressures due to the economy, all contribute to our exposure to the risk of fraud. To mitigate against this risk the City Council will review arrangements regularly.
- 8.2 The Anti-Fraud and Corruption Policy provides a framework for preventing and tackling fraudulent and corrupt acts against Birmingham City Council. The approval of the Policy by the Audit Committee, on behalf of Birmingham City Council, demonstrates the City Council's commitment to protecting public funds and minimising losses to fraud and corruption. Having made this commitment, it is imperative that Corporate Directors put in place arrangements for circulating the policy and promoting fraud awareness, throughout their Directorates.