

*Audit and Standards
Committee Report*



REPORT TO AUDIT AND STANDARDS COMMITTEE

DATE

12th January 2021

REPORT OF Head of Strategic Finance

ITEM

SUBJECT Update on fraud prevention activities in a covid environment.

SUMMARY

The purpose of this report is to inform the Audit and Standards Committee of the work undertaken by Internal Audit in relation to fraud risk during the current covid pandemic.

RECOMMENDATIONS

1. That the Audit and Standards Committee notes the content of this report.

**FINANCIAL IMPLICATIONS
CLEARED BY**

No
L Hunter

PARAGRAPHS

BACKGROUND PAPERS

CONTACT POINT FOR ACCESS

TEL NO.

AREA(S) AFFECTED

**CATEGORY OF
REPORT**

Open

Statutory and Council Policy Checklist

Financial implications
YES /NO Cleared by: Linda Hunter
Legal implications
Yes /NO Cleared by:
Equality of Opportunity implications
YES /NO Cleared by:
Tackling Health Inequalities implications
YES /NO
Human rights implications
YES /NO
Environmental and Sustainability implications
YES /NO
Economic impact
YES /NO
Community safety implications
YES /NO
Human resources implications
YES /NO
Property implications
YES /NO
Area(s) affected
Corporate
Relevant Scrutiny Board if decision called in
Is the item a matter which is reserved for approval by the City Council? YES /NO
Press release
YES /NO

Sheffield City Council

Internal Audit and Risk Report

Report to the Audit and Standards Committee

January 2021

Subject: Update on fraud prevention activities in a covid environment.

This report was requested by the Audit and Standards Committee to provide an update on the position of audit work to deal with potentially fraudulent activity during the current covid crisis.

The report gives a brief overview of some of the activity undertaken by internal audit to prevent, detect and deal with potentially fraudulent activity in the current year (2020/21). This includes both potential frauds that may be undertaken by employees and fraud that may be perpetrated by third parties against the Council.

The Internal Audit service is well aware that the vast majority of people both within and outside the Council will be rallying round in the time of national crisis to ensure that services are maintained and that business can function in an efficient and ethical manner. However it is important to note that some individuals and criminal organisations will look upon this crisis as an opportunity to try to undertake fraudulent activity. It has been noted that some 'gangs' have targeted loans administered by central government on an industrial scale.

Internal audit are fully aware of these issues and have been targeting its resources in the best ways possible to try to support the organisation in preventing fraud.

Work ongoing.

The audit plan for 2020/21 has been under constant review. As the risks have changed within individual audit reviews, so have the risks that we have examined. Following discussions with management some audits have been added to the plan to replace reviews which due to changes in activity could not take place this year. These new reviews have mainly focused upon areas which were affected by Covid. These changes should not affect the overall output number and coverage of the plan, but will allow for greater assurance where the potential risks are occurring and to ensure that adequate and effective probity is in place.

The Covid areas added to the plan include:

Absence Recording and Monitoring for Covid 19, to review the application and adherence to guidance regarding recording absences related to Covid 19. This will ensure that absence is correctly recorded and managed.

Decision making and the application of Category 1-4 decisions, to review the agreement, roll-out and application of the emergency decision-making scheme. This will ensure that decisions were appropriately made and recorded.

Corporate costs of the Covid 19 activity, to review the corporate cost of the Covid 19 pandemic across the Council, including arrangements for monitoring additional spend and a review of returns completed and submitted to relevant parties.

Use of credit cards and payment cards during the Covid 19 pandemic, a review to assess arrangements for the use and monitoring of spend on credit cards across the portfolios (People and Place). To include a review and assessment of the process to accept the increased use of payment cards and handheld devices.

Rough Sleepers - emergency hotel spending and monitoring, a government directive was received for Local Authorities to find accommodation for all rough sleepers during the Pandemic. This review will consider arrangements for sourcing, assigning and paying for emergency accommodation.

Infection Control Fund - Support Package for Care Homes, a review to assess the allocation process and governance arrangements for this grant.

Payment of Providers - Arrangements for support during Covid, to provide assurance to management that there are adequate controls in place to prepay providers, including effective and prompt reconciliations.

Free Early Learning (FEL) - top up payments to providers, to provide assurance to management that there are adequate controls in place to make 'top' up payments to providers, including effective and prompt reconciliations.

Personal Protective Equipment (PPE) procurement and recharging, to provide assurance that arrangements for the procurement of PPE for South Yorkshire are robust, and that appropriate charging mechanisms are in place to equitably apportion costs.

Staff Expenses in relation to Covid 19 costs, to provide assurance to management that there are adequate and consistent controls to prevent fraudulent staff claims.

Several other reviews have also been undertaken this year to support management, for example:

- Supporting the Incident Management Group (IMG)
- Non-SCC Volunteer Expenses Process, to support management in the development of non-SCC volunteer expenses process. Also, undertaking appropriate testing to ensure adherence to the defined process.
- Discretionary Grants Process, to support management in the development of the grant process, including the Post Assurance checking process and reporting requirements to BEIS.

Much of this work above is ongoing, however from the work undertaken to date we are not aware of any organised criminal activity. Any issues will be brought to the attention of the Audit and Standards Committee through the normal monitoring and reporting arrangements.

Covid Grant Support.

The government has made available large sums of money to support the Council's activity and to make grants to individuals and companies to support them in the crisis.

A large amount of money has been made available and paid out by the Council to local businesses. Internal Audit have undertaken a lead role in verifying several of these grants.

The Small Business Grant Fund (SBGF) and the Retail, Hospitality, and Leisure Grant Fund (RHLCGF) form part of the financial support package provided by Central Government during the first lockdown. These grants were paid based on the rateable value of a hereditament. Central Government provided a lump-sum grant of £115m and asked SCC to passport this money to eligible businesses.

The scheme asked we prioritise speed over in-depth checks and the Commercial and Business Development team established and administered the schemes which saw over 9,000 applications accepted and over £98m paid out to eligible businesses. Shortly after the start of the schemes BEIS asked for a digital reporting tool be completed each month and Internal Audit undertook this role. In completing this Internal Audit have examined 174 applications valuing £2m. No evidence of systematic or organised crime fraud was detected.

The key consideration was to make the payment to individuals as quickly and as simply as possible to support the keep economy and maintain jobs. These grants were 'rushed out' and, in some instances, the detailed conditions were received after the payments were made. There was little opportunity to undertake testing at the time. This was compounded by the fact that officers were working from home and did not have full access to all of the relevant systems.

Consequently retrospective checking was undertaken to identify any erroneous payments.

Payments were made quickly and efficiently and in total over the three grant schemes 8,244 grants were paid out totalling just over £98m. Of these grants 44 have so far been found to be invalid with a value of £555,000. These are not classified as fraud as there may well have been issues with the processes used. These grant overpayments have been followed up and currently just 26 grants totalling £305,000 remain outstanding. These will be followed up through our normal debt collection process. This amount is less than half a percent of the grants paid out.

There are only a couple of grants which appear to be fraudulent. These have been examined by Internal Audit and are being followed up separately through normal channels. We have gained intelligence from other Councils, Banks and from the National Anti-Fraud Network (NAFN) which as supported us in this work.

National Fraud Initiative.

This is a two-yearly process which is reported to members of this committee. The Council is required to submit data sets to the Cabinet Office for data matching processes to help in the indication of possible matches which may indicate fraud. The normal payroll, and other data was submitted on time in October 2020 and data matches are expected in the next month.

As part of the Government's drive to identify and reduce fraud, we have been asked to submit additional data sets this year. These relate to payments made for Covid grants. The Council is currently collating the data required and will be submitting this prior to the required deadline of the end of January 2020. We will receive the data matches on the present timetable by the 31st March 2020. It is likely that potentially fraudulent activity will be identified, which will need investigation. This is mainly because matches will be made to third party data.

Some Councils have undertaken a pilot exercise, and this has identified some issues which we will follow up in our work.

Normal Internal Audit Fraud Case work.

The level of frauds notified within the Council regarding employees has dropped this year, but this is not surprising. Although the disciplinary processes had to be suspended by HR for a time, this has now recommenced. Internal Audit continue to undertake reviews and provide support to managers in the reviews that they carry out.

We have had more notifications of potential fraud to do with third parties and these have taken considerable time to review and follow up.

We have also supported other authorities in providing information under the data protection act to support their work.

Financial Design Authority Group.

The Finance and Commercial Service has set up a design authority group, this is to ensure that going forward changes to controls regarding finance are closely monitored and agreed in advance. The group meets regularly to consider issues and the Senior Finance Manager Audit and Risk Manager sits on the main group and allocates resources to support individual activity. Our key aim is to ensure that probity is maintained and that the risk of fraud is minimised.

Internal Audit have so far been involved in the issues surrounding the vouchers used in the Moor Market, before Christmas to encourage economic activity.

Internal Audit was also involved in the financial processes surrounding the issuing of Covid Fixed Penalty Notices.

Business Continuity.

To ensure Internal Audit has robust business continuity planning an Assistant Audit and Risk Manager has been undertaking an Accredited Counter Fraud Specialist

training course. This will add to the counter fraud capacity of the team and provide increased flexibility when leading or assisting with investigations.

Fraud E- Learning.

The Fraud E-Learning package has been produced by Internal Audit and has been submitted to the team in learning development to turn this into a package for the E-Learning system. There has been a delay in this occurring, as the service are awaiting new IT which will allow them remote access to the specialist system that they require. This has been on order for a time and should arrive shortly.

The Fraud E-Learning package has been developed to give support to officers and members in understanding fraud risks and in putting in place measures to prevent/reduce the prevalence of fraud. The package has been tailored to the needs and processes of the Council.

The package covers the following areas.

1. Introduction to fraud
2. Fraud Definition
3. Fraud types
4. How to prevent Fraud
5. Reporting Fraud
6. How to respond to fraud
7. National Fraud Initiative (NFI)
8. Bribery
9. Money Laundering
10. Frequently Asked Questions
11. Further Information

This package will support the policies agreed by this Committee in 2019 and their implementation was supported by the Executive Management Team. All of these documents are readily available on the internet and have been widely distributed.

Summary

It is hoped that this report will provide the required assurance the Committee requires in relation to Covid and Counter Fraud.

Member Action

Members are asked to note the report.

