

Audit and Risk Committee

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Counter Fraud Annual Report 2024/25

Report by:

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Purpose

This report summarises the work the Counter Fraud work undertaken by Internal Audit during 2024/25.

Recommendations

Committee are requested to note the content of the 2024/25 Counter Fraud Annual Report.

1. Introduction

- 1.1. In line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally, the Council's Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption.
- 1.2. This report summarises the work the Counter Fraud work undertaken by Internal Audit during 2024/25 to deliver this strategy and manage the Council's risk of fraud.

2. Conclusion

The Counter Fraud Annual Report 2024/25 is attached for Audit & Risk Committee to note.

List of appendices: Counter Fraud Annual Report 2024/25

Background papers: None

Corporate Implications:

Legal/Constitutional: Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs. Under the Accounts and Audit (England) Regulations 2015, the Council's accounting control systems must include measures to enable the prevention and detection of fraud. The Council's Monitoring Officer is responsible under Section 5 of the Local Government and Housing Act 1989, to guard against, inter alia, illegality, impropriety and maladministration in the Council's affairs. The Bribery Act 2010 sets out the offence which can be committed by organisations which fail to prevent persons associated with them from committing bribery on their behalf. The Economic Crime and Transparency Act 2023 sets out the 'Failure to Prevent Fraud' offence.

Financial: Failure to have appropriate arrangements to prevent and detect fraud and manage the Council's risk of fraud puts the Council's financial management in a weakened position and therefore increases the risk of failing to deliver Our Chelmsford Our Plan.

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: Fraud has been identified as a Principal Risk. The FRCA is consistent with the wider corporate risk management framework.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: Management Team received the Counter Fraud Annual Report in May 2025.

Relevant Policies and Strategies: None

Internal Audit Counter Fraud Annual Report 2024-25

1. Purpose of this report

1.1. This report summarises the Counter Fraud work undertaken during 2024/25.

2. Delivering the Council's Counter Fraud Strategy

2.1. In line with best practice, CIPFA's guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally, the Council's Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption.

2.2. The actions required to deliver and implement the Strategy over the last two years were set out in a corresponding action plan and are shown at Appendix B.

2.3. Main activities undertaken during 2024/25:

a) Guidance, Training and Awareness

A Counter Fraud area is now in place on the Council's intranet, which provides detailed policies and guides, definitions and contacts for staff, managers and Councillors in response to suspicions of theft, fraud, bribery or corruption.

An online training and awareness programme covering Whistleblowing and Anti-bribery and Corruption was rolled out across the Council to all PC based staff. These training modules provide a good basis of understanding and was a good opportunity to publicise the Council's refreshed suite of Counter Fraud documents and remind all staff of their role and responsibility in preventing, detecting and reporting any suspected theft, fraud, bribery or corruption, which forms a key part of the Council's Counter Fraud and Corruption Strategy. As at 31st March 2025, 576 members of staff out of 608 (95%) had completed the training.

Going forward, the programme will be used for all new starters as part of their mandatory induction training.

For Members, an LGA Councillor Workbook on Bribery and Corruption was circulated to help recognise what constitutes bribery and corruption and whistleblowing, understand why it is important that organisations prevent bribery and corruption, understand responsibilities as a Councillor, and how to report concerns through the Council's Whistleblowing process.

For non PC-based staff and for general awareness, a series of posters relating to Whistleblowing and Anti-Bribery and Corruption are now displayed around Council satellite offices/common areas highlighting the actions to take and key contacts if there are any suspicions of wrongdoing and a QR code to the Counter Fraud area on the intranet which contains full details of the procedures to be followed.

In addition, all line managers have been provided with a PDF summary of the action to take if any staff report wrongdoing to them with links to the Counter Fraud area for full details if required.

b) Complying with NFI and Transparency Code

The National Fraud Initiative (NFI) is a bi-annual exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council is required to submit data to National Fraud Initiative on a regular basis. The latest major exercise took place in October 2024 with results released from January 2025. To date, 35% of the matches have been reviewed and processed by the relevant services, with no fraud identified.

A NFI Protocol has been developed to ensure we are maximising the benefits of the exercises and participating in the most efficient manner. The Council also participates in the Pan Essex Counter Fraud Data Matching System. This Counter Fraud Matching System is primarily used to identify Council Tax related fraud across Essex, which is investigated by Compliance Officers within the Revenue Service.

In addition, fraud data which is required to be published annually in line with the Transparency Code has been updated and published on the Council's website.

3. Managing the Risk of Fraud

3.1. The Council has identified Fraud as a risk in its Principal Risk Register (PRR 005) and has developed a detailed Fraud Risk and Control Assessment (FRCA), breaking down the Council's overall fraud risk into 20 risk areas/categories (see Appendix A).

3.2. Several processes also assist Internal Audit in detecting potential fraudulent activity including:

- One of the criteria assessed when producing the risk-based annual audit plan is the risk of fraud as per the Council's Fraud Risk Register. In addition, all individual reviews are assessed and aligned to the Council's Fraud Risk Register.
- Data Analytics have been used by Internal Audit since 2024 in their reviews of Accounts Payable and Payroll to detect any anomalies, with a specific focus on anti-fraud tests.
- Reviews of Council processes/walk throughs etc should highlight any gaps in control and areas that are vulnerable to fraudulent activity.

3.3. Additionally, where concerns of fraud have been highlighted, investigations are carried out and review of the control framework is undertaken to identify any gaps in control, establishing any lessons learned and recommendations to assist with the design of controls.

4. Whistleblowing

4.1. The Council's whistleblowing policy is available to staff, key stakeholders and the general public via the Council's website. A review of the Whistleblowing Policy was undertaken by the Legal and Democratic Services Manager which confirmed the current policy is compliant with legislation as reported to Governance Committee in January 2023.

4.2. The Council's appointed Whistleblowing Officer is the Director of Connected Chelmsford. However, the day-to-day management and handling of issues raised is dealt with by the Legal & Democratic Services Manager or the Human Resources Services Manager. The Council's S151 Officer and Audit Services Manager also have access to Whistleblowing reports in case of any allegations of fraud. As is best practice, an annual report is made to the Governance Committee by the Legal and Democratic Services Manager regarding

any issues addressed. The last such report was made in January 2025 which noted that there were no concerns to report.

5. Failure to Prevent Fraud

5.1. The Economic Crime and Corporate Transparency Act (ECCTA) 2023 introduced a new criminal offence of 'Failure to Prevent Fraud' (FTPF) which becomes effective from September 2025, designed to hold organisations to account if they profit from fraud committed by their employees.

5.2. The new offence allows prosecutors (i.e. the Crown Prosecution Service) to hold an organisation criminally liable for fraud committed by an employee or agent of that organisation (known as an 'associated person'). To establish a defence, an organisation will need to demonstrate to the court that it had in place reasonable procedures designed to prevent persons associated with the organisation from committing fraud offences. If found liable, an organisation can receive potentially unlimited financial penalties.

5.3. In summary, a local authority will be liable for the FTPF offence where one of its 'associated persons' commits a specified fraud offence with the intention of benefitting (either directly or indirectly) the Authority. However, an organisation will not be guilty of the offence if it was itself the victim (or intended victim) of the fraud offence.

5.4. The offence can be illustrated by the following example scenarios:

a) A senior official in the finance department of a local authority is responsible for approving payments to contractors. This official diverts funds intended for public projects to a personal account but records them as legitimate payments to contractors.

- The official is an associated person and the offence is fraud by abuse of position. However, the authority would not be liable as there is no intention by the individual to benefit the authority.

b) A local authority is seeking additional government funding for community projects. An employee in the planning department manipulates project reports to overstate the expected benefits and outcomes. The intent is to make the projects appear more attractive to secure additional funding.

- The employee is an associated person and the offence is fraud by false representation. The intention behind the fraud is expressly to the authority's benefit. Therefore, the authority could potentially be liable under the FTPF offence.

5.5. Where the elements of the offence are met, the authority can avoid any liability if they can demonstrate that they had reasonable fraud prevention procedures in place at the time of the offence designed to prevent an associate from committing the fraud.

5.6. Government guidance provides the types of measures that they would expect to be in place, and it is these principles that the courts will consider when determining whether an organisation had reasonable fraud prevention processes in place:

- **Top level commitment** – senior management should lead by example and cultivate a culture in which fraud is never deemed acceptable and be able to demonstrate ability to, and knowledge of how to, report fraud.

- **Risk assessment** – all local authorities should evaluate their exposure to the real and present risk of fraud, focussing on employees, agents and other associated persons. These assessments should be dynamic and remain under review.
- **Proportionate risk-based prevention procedures** – organisations should devise fraud preventions plans, with procedures being proportionate to the risk identified in the risk assessment.
- **Due diligence** – organisations should routinely conduct risk-based due diligence. These procedures should be examined to ensure that they appropriately address risks.
- **Communication (including training)** – organisations should educate employees and other associated persons on fraud risks. Prevention measures (such as whistleblowing procedures) should also be implemented.
- **Monitoring and review** – organisations should establish systems to ensure regular monitoring and review of fraud prevention measures.

5.7. The actions undertaken by the Council to deliver the Council's Counter Fraud Strategy have provided a good basis for meeting the requirements of the new offence. These will continue to be reviewed and monitored in line with the new legislation, and the Council's new Counter Fraud Strategy (from December 2025) will further underpin the key principles required.

6. Number and Types of Investigations 2024/25

	No.	Notes
New allegations to IA:		
2022/23	4	
2023/24	10	
2024/25	5	
No. of cases subsequently closed	12	10 related to Housing allegations – all closed with no further action required. 1 alerted via NFI – investigation identified no fraud. 1 alerted via Police DPA Request – no further action required by the Council.
Current Investigations	3	Two allegations relating to Housing. Investigations opened by Basildon Council through our investigation partnership arrangement. Remaining allegation was alerted via a DPA request from a London Borough. Awaiting outcomes as to whether the allegations are substantiated and whether the Council has suffered any loss as a result.
Fraud/Irregularity identified	4	As previously reported in detail to Committee, incidents related to Phishing and Housing (combined monetary loss <£35k), Theft and False Representation (no monetary loss).

Due to the confidential nature of these type of referrals, it is not appropriate to provide further details of the allegations in this report.

Extract from Fraud Risk Register:

Ref	Risk Title	Risk Event	Risk Score	Risk Rating
FRC_01	Data theft and other cyber crime	Data solicited or taken forcibly by external parties and/or used by insiders for personal gain, e.g., theft of personal data to perpetrate identity fraud.	18	Very High
FRC_02	Corporate property	Purchase, sale or letting of property at anything other than market value/rate; provision of services without charge	16	High
FRC_03	Social housing & tenancy	False applications, misallocation for personal gain, illegal subletting, secondary home use/abandonment, Right to Buy (indirect risk impacting local housing supply)	16	High
FRC_04	Procurement and contracting	Collusion to distort fair an open competition, collusion between bidders, submission of false documents for payment, split contracts, collusion with contractors, post-award contract management etc.	14	High
FRC_05	Decision-making	Corruption including bribery and improper influence, failure to declare conflicts/gifts, suppressing or providing false information to sway decisions or affect outcome	14	High
FRC_06	Payment fraud	Diversion of payments, internally or following false requests (often cyber-enabled)	14	High
FRC_07	Payroll and expenses	False entries (e.g., ghost employees), inflation of payments, false claims for expenses and overtime, abuse of absence policies, IR35	14	High
FRC_08	Theft	Cash and equivalents e.g. funds via procurement cards and other assets for resale or personal use, including IT equipment, stores, fuel	14	High
FRC_09	Recruitment	False applications and identity fraud	14	High
FRC_010	Manipulation of data/ false accounting	Omitting or making misleading, false or deceptive entries (e.g. performance, financial data etc.)	13	High
FRC_011	Income collection fraud – other	Abuse of payment card data; invalid discount or other reduction in fees, invalid cancellation or refunds or write offs; fraudulently avoiding payment of debts	9	Medium
FRC_012	No recourse to public funds	False eligibility for housing allocation, homelessness support, housing benefit, council tax support	9	Medium
FRC_013	Money laundering	Exchanging money or assets that were obtained criminally for money or other assets that are 'clean'.	9	Medium
FRC_014	Misuse of Council assets	Use of Council assets for personal gain at detriment to the Council (e.g. vehicles, buildings, parking spaces)	9	Medium
FRC_015	Housing Benefit	False applications, including undeclared income or partners	7	Medium
FRC_016	Non-domestic rates	Abuse of exemptions, discounts and reliefs (incl. Covid-19 sector-related), unlisted, vacant, extended premises, refund scams	7	Medium
FRC_017	Council tax	Abuse of local council tax reduction support, single person and other discounts, refund scams, failure to register (Rising 18's)	7	Medium

Ref	Risk Title	Risk Event	Risk Score	Risk Rating
FRC_018	Grants Received and Payable	False claims to secure a grant or demonstrate terms may have been met, diversion of funds, abuse of position to award grants	7	Medium
FRC_019	Insurance claims	False or exaggerated claims (esp. personal injury)	7	Medium
FRC_020	Voting fraud	Fraudulent acts by voters, canvassers, poll clerks and officers, and/or count staff	3	Low

Counter Fraud Strategy Action Plan

Area	Action Ref	Actions	Status
GOVERN	G1	Develop a Counter Fraud and Corruption Strategy which will be communicated throughout the Council and acknowledged by those charged with governance.	Done
GOVERN	G2	Assess the Council's fraud and corruption risks, have an action plan to deal with them and regularly report to Management Team and Members.	Done/ Ongoing
GOVERN	G3	Present a regular report to Management Team and Audit & Risk Committee to compare the Council's progress against FFCL and Counter Fraud and Corruption Strategy	Done
GOVERN	G4	Management Team and Audit & Risk Committee review regular reports to ensure that the Counter Fraud and Corruption Strategy is appropriate in terms of its fraud risk and resources	Done
GOVERN	G5	Scrutinise weaknesses revealed by instances of proven fraud and corruption and feed back to departments to fraud proof systems.	Done/ Ongoing
ACKNOWLEDGE	A1	Undertake an assessment against the internal and external risks and horizon scan future potential fraud and corruption risks. Specifically consider the risks of fraud and corruption in the Council's overall risk management process.	Done/ Ongoing
PREVENT	PRE1	Put in place arrangements to promote and ensure probity and propriety in the conduct of activities and prevention and detection of fraud. Monitor compliance with standards of conduct across the Council, ensuring that this is effective and reported to Management Team and Audit & Risk Committee. Actions included: <ul style="list-style-type: none"> - Reminding all staff and Councillors of their role and responsibility in preventing and detecting fraud. - The roles within the Council most at risk of bribery and corruption were identified and risk assessed - Training and awareness activities were developed and rolled out across the Council. - Independent assurance of the effectiveness of the governance, risk management and control environment relating to fraud has been provided by Internal Audit. 	Done
PREVENT	PRE2	Undertake recruitment vetting of staff prior to appointment by risk assessing posts and undertaking the checks recommended. Actions included <ul style="list-style-type: none"> - Internal Audit independent review of Safer Recruitment procedures - Terms and conditions and legal requirements for undertaking business with the Council include references to compliance with the Bribery Act. 	Done
PREVENT	PRE3	Ensure that there is a zero-tolerance approach to fraud and corruption and an independent whistle-blowing policy Actions included: <ul style="list-style-type: none"> - Review of the Council's Whistleblowing Policy and providing whistleblowing training and awareness across the Council. - Provision of full details of the whistleblowing policy now available on Counter Fraud area on intranet. 	Done
PREVENT	PRE4	Remind service managers that new policies, procedures, strategies etc that may be connected to a fraud and/or corruption risk should be	Done

Area	Action Ref	Actions	Status
		reviewed by the CGG for comments/amendments and to inform the Counter Fraud Risk Register.	
PREVENT	PRE5	<p>Ensure the fraud response plan covers all areas of counter fraud work, is linked to the audit plan and communicated to Management Team and Audit & Risk Committee.</p> <p>Actions included:</p> <ul style="list-style-type: none"> - New Fraud Response Plan produced and aligned to new Counter Fraud and Corruption Strategy and including specialist fraud areas i.e., Tenancy Fraud, Council Tax. Prevention of Money Laundering. - Full details of the fraud response plan now available on Counter Fraud area on intranet and awareness posters and manager's PDF summaries produced. - Internal Audit align their Internal Audit Plan with Fraud Risk Assessment - Individual audit scopes consider the Fraud Risk assessment and consider the prevention and detection of fraud 	Done
PREVENT	PRE6	<p>Ensure that the Council actively takes part in mandatory NFI exercises and promptly takes action arising from it.</p> <p>Actions included:</p> <ul style="list-style-type: none"> - The latest major exercise took place in October 2024 with results released from January 2025. To date, 35% of the matches have been reviewed and processed by the relevant services, with no fraud identified - A NFI Protocol has been developed to ensure we are maximising the benefits of the exercises and participating in the most efficient manner. - The Council also participates in the Pan Essex Counter Fraud Data Matching System. This Counter Fraud Matching System is primarily used to identify Council Tax related fraud across Essex, which is investigated by Compliance Officers within the Revenue Service. 	Done/ Ongoing
PREVENT	PRE7	Successful cases of proven fraud/corruption to raise awareness will be publicised as and when appropriate to do so in agreement with Management Team and Members.	Done
PURSUE	PU1	<p>Transparency Code and NFI statistics collated annually and reported to Management Team and Audit & Risk Committee</p> <p>Actions included:</p> <ul style="list-style-type: none"> - The latest major exercise took place in October 2024 with results released from January 2025. To date, 35% of the matches have been reviewed and processed by the relevant services, with no fraud identified - In addition, fraud data which is required to be published annually in line with the Transparency Code has been updated and published on the Council's website 	Done/ Ongoing
PURSUE	PU2	<p>Developing a programme of proactive counter fraud work which covers risks identified in the fraud risk assessment.</p> <p>Actions included:</p> <ul style="list-style-type: none"> - Internal Audit align their Internal Audit Plan with Fraud Risk Assessment - Individual audit scopes consider the Fraud Risk assessment and consider the prevention and detection of fraud 	Done/ Ongoing
PURSUE	PU3	Collaborating with other Council services and external enforcement agencies, encouraging a corporate approach and co-location of enforcement activity.	Done

Area	Action Ref	Actions	Status
		<p>Actions included:</p> <ul style="list-style-type: none"> - Corporate Governance Group meet quarterly in line with its terms of reference and programme of work - Counter Fraud activity is included in the Counter Fraud Report to Management Team and Audit and Risk Committee. - Arrangement in place with Basildon Council to provide investigation and specialist support and advice - Audit Services Manager is member of Eastern Counter Fraud Group - Respond to NFI matches and DPA requests from other authorities and Police as required. 	
PURSUE	PU4	Data Analytics have been used by Internal Audit since 2024 in their reviews of Accounts Payable and Payroll to detect any anomalies, with a specific focus on anti-fraud tests	Done
PURSUE	PU5	<p>Ensure that there are professionally trained and accredited staff for counter fraud work, with adequate knowledge in all areas of the Council and the counter fraud team has access to specialist staff for surveillance, computer forensics, asset recovery and financial investigations where required.</p> <p>Actions included:</p> <ul style="list-style-type: none"> - All Internal Audit staff are now Accredited Counter Fraud Technicians - Arrangement in place with Basildon Council to provide investigation and specialist support and advice - Arrangement with PWC who can undertake specialist investigations and Data Analytics as/when required. 	Done
PROTECTION	PRO1	<p>Assess fraud resources proportionately to the risk the Council faces and are adequately resourced.</p> <p>Actions included:</p> <ul style="list-style-type: none"> - All Internal Audit staff are now Accredited Counter Fraud Technicians - Arrangement in place with Basildon Council to provide investigation and specialist support and advice - Arrangement with PWC who can undertake specialist investigations and Data Analytics as/when required. 	Done
PROTECTION	PRO2	<p>Develop a fraud plan which is agreed by Management Team and Audit & Risk Committee, reflecting resources mapped to risks and arrangements for reporting outcomes.</p> <ul style="list-style-type: none"> - Internal Audit align their Internal Audit Plan with Fraud Risk Assessment - Individual audit scopes consider the Fraud Risk assessment and consider the prevention and detection of fraud - Reviews of Council processes/walk throughs etc should highlight any gaps in control and areas that are vulnerable to fraudulent activity 	Done