



Committee and Date

Audit and Governance Committee

27th November 2025

10:00am

Item

Public



Fraud Investigation Options

Responsible Officer:	James Walton		
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Cabinet Member (Portfolio Holder):	Heather Kidd, Leader of the Council Duncan Kerr, Chairman of the Audit and Governance Committee Roger Evans, Portfolio Holder – Finance		

1. Synopsis

This report considers the motion referred to the Audit and Governance Committee by Council regarding the proposal to create a dedicated Counter Fraud Team.

2. Executive Summary

- 2.1. Preventive fraud controls operate directly within service areas, corrected at source and often not recorded as fraud. There are also challenges accurately quantifying associated savings as many are not cashable amounts recovered, for example they may relate to the projected cost of a permit if not cancelled despite their being no evidence of fraudulent activity.
- 2.2. There are various options for delivery of counter fraud work which can be considered including:
 - Dedicated in house counter fraud team
 - Shared service model / regional partnership
 - Contracted out to an external specialist provider
 - Hybrid model
 - Embedded in Internal Audit
 - Collaborative national schemes / data sharing

- 2.3. No system is ever free from error and Council officers recognise this. Whilst there will always be opportunities to further enhance fraud prevention controls and detection further cost benefit analysis would be required to determine if a dedicated team would be cost effective for the Council. Given the current financial position of the Council, careful consideration of the various options is required and a budget would need to be established if a dedicated team were to be created.

3. Recommendations

Members are asked to:

- 3.1. Consider the options presented in this report and identify if they want to refer to Cabinet to change the Council's approach to fraud investigations or continue with the current arrangements.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Accounts and Audit Regulations 2015 require the Council to ensure they 'undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance'. In doing so the Council will have full regard to relevant legislative requirements, including without limitation:
- The Fraud Act 2006
 - Theft Act 1968
 - Bribery Act 2010
 - Section 151 Local Government Act 1972
 - Section 5 Local Government & Housing Act 1989
 - Contracts Regulations 2015
 - Accounts and Audit Regulations 2011
 - The Council Tax Reduction Schemes (Detection and Enforcement) (England) Regulations 2013
 - Local Government Finance Act 1988
 - Regulation of Investigatory Powers Act 2000
 - Terrorism Act 2006
 - Proceeds of Crime Act 2002
 - Police and Criminal Evidence Act 1984
 - Companies Act 2006
 - Localism Act 2011
 - The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
 - Economic Crime and Corporate Transparency Act 2023
- 4.2. Internal Audit co-ordinate special investigations where there is a fraudulent element, this is currently done via an investigation/ disciplinary report and management issues report which highlights weaknesses and proposes internal control improvements to reduce the potential for future frauds, losses or corruption.

Internal Audit, working to the Global Internal Audit Standards (GIAS), has a responsibility to evaluate the potential for the occurrence of fraud and any subsequent management response.

- 4.3. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or consultation consequences of this proposal.

5. Financial Implications

- 5.1. Shropshire Council continues to manage unprecedented financial demands and a financial emergency was declared by Cabinet on 10 September 2025. The overall financial position of the Council is set out in the monitoring position presented to Cabinet on a monthly basis. Significant management action has been instigated at all levels of the Council reducing spend to ensure the Council's financial survival. While all reports to Members provide the financial implications of decisions being taken, this may change as officers review the overall financial situation and make decisions aligned to financial survivability. All non-essential spend will be stopped and all essential spend challenged. These actions may involve (this is not exhaustive):
- scaling down initiatives,
 - changing the scope of activities,
 - delaying implementation of agreed plans, or
 - extending delivery timescales.
- 5.2. The Internal Audit service is provided within approved budgets. The work undertaken by Internal Audit in relation to Fraud and Special Investigations contributes to the efficient and effective use of resources ensuring their optimal use to achieve the Council's identified outcomes. Any decision to create a dedicated fraud team would need to be referred to Council to identify an appropriate budget.

6. Climate Change Appraisal

- 6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting and mitigation; or on climate change adaption. Therefore, no effect to report.

7. Background

- 7.1. A motion relating to the establishment of a dedicated fraud investigation team was presented to Council at their meeting on 25th September. A decision was taken to defer the motion to the Audit and Governance Committee for further debate.
- 7.2. Full details of the motion are detailed below:

Item 13 C [Agenda for Council on Thursday, 25th September, 2025, 10.00 am — Shropshire Council](#)

Motion: Establishment of a Fraud Investigation Team

Currently, Shropshire Council has no dedicated fraud investigation team. As a result, the authority faces a significant risk of under-detecting and under-reporting fraud. This may lead to fraudulent claims or practices going unchallenged, minimal recovery of public

funds, and a growing perception that fraud within Shropshire is unlikely to be detected. This may exacerbate financial pressures and erode public confidence in the Council's ability to safeguard resources.

This Council notes with concern the findings of the 2023 report by Crowe, Peters & Peters, and the University of Plymouth, which estimate that annual losses to the UK's public sector amount to £50.2 billion. Of this, £8.8 billion (excluding benefits) is attributed to fraud within Local Authorities. The largest risks are identified in procurement (£5bn), housing tenancy fraud (£2bn), and payroll fraud (£1.2bn). Additionally, benefit-related fraud accounts for £2.9bn, including Housing Benefit fraud (£700m) and Council Tax Reduction fraud (£60m).

This Council believes:

That taking proactive steps to prevent, detect, and address fraud is essential to protecting public funds, ensuring fairness, and maintaining trust within local government.

That a dedicated fraud team, whether internally managed or externally contracted—subject to a feasibility assessment—can provide a robust structure for risk-based investigation, prevention, and enforcement while positively contributing to the Council's financial resilience.

This Council notes:

The support provided to local authorities by the Fighting Fraud and Corruption Locally strategy, which sets out a coordinated national framework supported by the Public Sector Fraud Authority (PSFA) and the National Audit Office (NAO).

The effectiveness of focused fraud investigation and detection, as evidenced by the annual reports of the National Fraud Initiative.

That whilst the exceptional recovery ratios achieved in some large urban areas may not be matched in Shropshire, evidence from comparable councils suggests that even modest detection and recovery levels can result in net savings exceeding operational costs.

This Council recognises that every pound lost to fraud is a pound not being invested in our communities, public services, and adult social care. Fraud directly impacts the Council's ability to provide services to those in genuine need and adds stress to already stretched finances.

That from the 1 September 2025, the Economic Crime and Corporate Transparency Act 2023 introduces a new corporate offence of failure to prevent fraud. This legislation places a duty on organisations to implement reasonable fraud prevention measures and holds them criminally liable for fraudulent acts committed by employees or agents

Therefore, this Council resolves to:

- 1. Establish a permanently dedicated and resourced Fraud Investigation Team, tasked with the detection, investigation, and recovery of monies lost through fraudulent activity, in compliance with the Council's governance and budgetary procedures.*
- 2. Ensure the Team works closely with other relevant Council departments—such as procurement and Revenues & Benefits to maximise recovery and prevention efforts.*
- 3. Where appropriate, pursue prosecutions to deliver a strong deterrent effect, ensuring that successful cases taken through the courts are publicised through the media to maximise deterrence, and that all work is carried out fully within the legislative framework available.*
- 4. Develop partnerships with external agencies including the Police, HMRC, DWP, and other relevant organisations to strengthen investigations, prosecutions, and the recovery of proceeds of crime.*

5. Implement a timeline for the establishment and review of the Fraud Investigation Team, with periodic reporting to Full Council or the Audit Committee.

Current arrangements

- 7.3. The Counter Fraud, Bribery and Anti-Corruption Strategy is reviewed annually and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the continuing and important role the strategy plays in the corporate governance and internal control framework. Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. This aligns with CIPFA's Code of practice on managing the risks of fraud and corruption. The Strategy is owned by the S151 Officer.
- 7.4. The Audit and Governance Committee terms of reference¹ identifies responsibilities for them in overseeing fraud. The Fraud Response Plan is a detailed process flow documented within the fraud strategy that identifies CAE/S151 Officer to review/decide how any reported fraud/ wrongdoing should be investigated.
- 7.5. The Whistleblowing Policy² is owned by the Council's Monitoring Officer. Wrongdoing may be reported in a variety of places through those channels, including Senior Managers, employees, Council members or public referrals. However, fraud may be identified and reported in other areas within the Council such as trading standards, Revenues and Benefits. An annual whistleblowing report is reviewed by the Audit and Governance Committee which outlines whistleblowing activity across the Council.
- 7.6. The Council publishes its fraud and irregularity data annually in accordance with the Local Government Transparency Code 2014³.
- 7.7. Specific fraud risk registers are in place with regular reviews undertaken across the relevant service areas. Fraud risks are also considered both in the development of the internal audit plan and form part of the risk assessment completed following every planned audit assignment.
- 7.8. A specific Fraud and Special Investigations Report⁴ is considered in the exempt session of each meeting of the Audit and Governance Committee. This details the results of any Internal Audit investigations together with details of the agreed control improvements to prevent further occurrence of fraud or error.
- 7.9. The current model is through Internal Audit delivery supplemented by specialist contractors where required. This is included as an option as detailed in **Appendix A** (Internal Audit).
- 7.10. The Council is mandated to take part in the National Fraud Initiative (NFI⁵) which is an exercise that matches electronic data within and between public and private

¹ [Audit and Governance Committee ToR](#)

² [public-whistleblowing-policy.pdf](#)

³ <https://next.shropshire.gov.uk/open-data/datasets/>

⁴ [Browse meetings - Audit & Governance Committee — Shropshire Council](#)

⁵ [The National Fraud Initiative | Shropshire Council](#)

sector bodies to prevent and detect fraud. Work is underway to review the matches for the 2024/25 exercise. Adult Social care, Council tax and Election data is also being submitted for 2025.

- 7.11. There are various options for delivery of counter fraud work which can be considered including:
- Dedicated in house counter fraud team
 - Shared service model / regional partnership
 - Contracted out to an external specialist provider
 - Hybrid model
 - Embedded in Internal Audit
 - Collaborative national schemes / data sharing
- 7.12. A brief summary of the options including a narrative regarding the potential advantages and disadvantages of each option are detailed at **Appendix A**.
- 7.13. Counter fraud activity is imbedded within service areas and is designed to prevent as well as identify fraud and subsequent funds to be recovered. There is an expectation across service areas that controls are in place to identify and correct errors as opposed to being recognised, recorded, and dealt with as counter fraud activity. There are also difficulties in quantifying associated savings as many are not cashable amounts recovered, may relate to projected cost of a permit if not cancelled for example.
- 7.14. A deterioration of the Council's control environment significantly raises the risk that fraud may occur and remain undetected. The existence of weak controls in the Council has previously led to instances where it has been challenging to pinpoint the suspected fraudulent activity or to determine the underlying cause of the issue. Strengthening the Council's overall control environment is therefore essential.
- 7.15. No system is ever free from error and Council officers recognise this. Whilst there will always be opportunities to further enhance fraud prevention controls and detection further cost benefit analysis would be required to determine if a dedicated team would be of benefit to the Council.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

[Agenda for Council on Thursday, 25th September, 2025, 10.00 am — Shropshire Council](#)

Local Member: N/A

Appendices

Appendix A – Potential Delivery Model Options

APPENDIX A – POTENTIAL DELIVERY MODEL OPTIONS

DELIVERY MODEL	ADVANTAGES	DISADVANTAGES
Dedicated In House Team A dedicated fraud investigation team employed directly by the Council.	• Direct accountability to the Council and Members. • Local knowledge. • Integration with other Council services e.g. Procurement, Revenues and Benefits. • Retained knowledge.	• High cost of salaries, training technology and IT. • Difficulties retaining specialist staff and keeping skills up to date without ongoing investment. • Risk of isolation if not working with other Councils. • Generally more cost effective for large metropolitan Councils with high fraud exposure.
Shared Service Model Neighbouring Councils pool resources to create a joint counter-fraud unit.	• Economies of scale through shared staff and resources. • Wider pool of expertise. • Shared intelligence across a wider area. • Greater resilience to cover turnover, workload etc. • Medium costs spread across Councils.	• Governance / partnership complexities. • Potential loss of local knowledge. • Set up requires strong political and managerial alignment. • Better for smaller councils that cannot afford a stand alone team.
Contracted out to an External Specialist Provider Private firm or not-for-profit agency providing investigation or analytics services.	• Access to high-level expertise and technology such as data analytics and forensic accounting. • Could be contracted for specific projects or areas of high risk. • Wider sector knowledge and specialisms. • Could be more cost effective on pay-per-case or cusses-fee basis.	• Variable costs, difficult to project. • Costs can escalate if poorly managed. • Less organisational control and potential conflict of interests. • Loss of knowledge as provider holds the expertise and not the Council. • Cultural alignment may be weaker.

DELIVERY MODEL	ADVANTAGES	DISADVANTAGES
Hybrid Model A small-in house team for prevention, policy and oversight with external/partner support for investigations or analytics.	• Balance of local knowledge with access to external expertise. • In house team ensure governance, prevention and culture are maintained whilst external company deal with spikes in demand or specialist cases. • More scalable than an in house team. • Retains strategic control. • Medium cost balance of core staff activities and control over level of bought in specialism.	• Requires funding and contract management. • Risk of gaps in responsibilities between internal team and external providers if responsibilities are not clearly defined.
Internal Audit (this is the current model) Fraud investigation and counter fraud work sits within the Internal Audit team.	• Integrated with risk management and assurance framework. • Can be efficient as Internal Audit staff may identify fraud as part of their routine work. • Lower cost than a dedicated team or outsourcing. • Best for Councils with low or moderate fraud exposure or limited resources. • Internal Control improvements identified as part of fraud investigation work to prevent further occurrence. • Lower cost as staff multitask across both areas.	• Dilutes specialism as fraud investigation requires different skills than audit. • Staff may lack enforcement or investigatory expertise. • May be reactive rather than proactive. • Resources may be diverted to Internal Audit assurance work.

DELIVERY MODEL	ADVANTAGES	DISADVANTAGES
Collaborative National Schemes and Data Sharing Participation in the National Fraud Initiative (NFI) and other fraud networks such as the National Anti-Fraud Network (NAFN) Local Government Association (LGA) or CIPFA hubs.	• May be more cost effective but is mandatory in some cases. • Provides access to national datasets and intelligence. • Supports benchmarking against peers.	• Not a substitute for a local team, provides intelligence but not investigations. • May generate additional workload for Councils who cannot act due to lack of resources. • Works best alongside other delivery models.