

AUDIT AND GOVERNANCE COMMITTEE

DATE	23 rd July 2020
REPORT OF	Director of Resources and Governance
SUBJECT	Annual Fraud Report 2019/20
STATUS	Open

CONTRIBUTION TO OUR AIMS

Effective anti-fraud and corruption arrangements support the delivery of the Council's strategic objectives by contributing to effective governance arrangements designed to underpin them.

EXECUTIVE SUMMARY

This report highlights the work that has been undertaken for the prevention and detection of fraud, corruption and financial misconduct within North East Lincolnshire Council.

RECOMMENDATIONS

Members are asked to consider the content of this report as part of their responsibilities for monitoring and reviewing the Council's arrangements in relation to fraud and corruption and to endorse its further distribution both internally and externally.

REASONS FOR DECISION

The Committee's responsibilities include monitoring the effectiveness of the Council's arrangements for managing the risk of fraud. By summarising the anti-fraud and corruption activity carried out in 2019/20, the attached reports helps the Committee discharge these responsibilities.

1. BACKGROUND AND ISSUES

1.1 The Council's framework to combat fraud, corruption and misappropriation was approved by Audit Committee in October 2017. The framework follows national guidance as laid out in the document "Fighting Fraud Locally - The local government counter fraud and corruption strategy 2016-2019", published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre, and is based upon three key principles:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursuing - Being stronger in punishing fraud and recovering losses

1.2 The attached annual report highlights the work carried out in each of these areas, and demonstrates the Council's continuing commitment to minimise the risk of fraud

2. RISKS AND OPPORTUNITIES

As stated in its Anti-Fraud and Corruption Strategy, the Council will not tolerate fraud and corruption and will follow up allegations brought to its attention. Although this report demonstrates that allegations are investigated and pursued, there is an underlying risk that some instances of potential fraud, corruption and misconduct may not be identified and thus brought to the attention of those with the responsibility of investigating allegations.

Effective and co-ordinated anti-fraud arrangements are essential to protect the Council against the loss of resources and reputation.

3. OTHER OPTIONS CONSIDERED

No other options were considered, as the production of an Annual Fraud Report are considered to be notable practice as laid out by CIPFA and the requirement for the Audit Committee to consider an Annual Fraud Report is a part of its Terms of Reference.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

As well as financial loss caused by fraud, there can also be reputational impacts for those organisations which do not manage the risk of fraud effectively. The production of an annual report helps mitigate its reputational risk by providing assurance to stakeholders on how the risks are managed.

Moreover, by widely communicating the report both internally and externally it potentially provides a deterrent to fraudsters by highlighting the Council's commitment to identify fraud and take proactive action to pursue fraudsters.

5. FINANCIAL CONSIDERATIONS

There is no additional expenditure required as a consequence of this report. The report demonstrates the Council's approach to minimising the risk of financial loss due to fraud. It summarises the work undertaken to identify fraud and error resulting in increased Council Tax liabilities available for collection and the opportunity to recover monies overpaid.

6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

There are no climate change or environmental implications arising from this report.

7. FINANCIAL IMPLICATIONS

The financial implications of fraud and the measures to mitigate the risk, are highlighted in the accompanying report.

8. LEGAL IMPLICATIONS

There are no direct legal implications arising from the report.

9. HUMAN RESOURCES IMPLICATIONS

The Council takes matters in relation to fraud and corruption very seriously. Any allegations involving employees are dealt with through the council discipline procedure and where cases are proven appropriate sanctions issued which may include dismissal.

10. WARD IMPLICATIONS

No specific ward implications.

11. BACKGROUND PAPERS

Anti-fraud and corruption strategy (October 2017)

12. CONTACT OFFICER(S)

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The
Assurance
People

NORTHERN LINCOLNSHIRE
BUSINESS CONNECT

North East Lincolnshire Council

Annual Fraud Report

2019/20

Introduction

As part of its shared service arrangements with North Lincolnshire Council, the Council has a team of investigators (three investigators (two full time equivalent), one support officer and a manager) reporting directly to the Head of Audit and Assurance. This report highlights the work which has been carried out under the three key principles of:

Acknowledging and understanding fraud risks

Preventing and detecting fraud

Pursue - Being stronger in punishing fraud and recovering losses.

Acknowledging and understanding fraud risks

All public bodies are at risk from fraud in one form or another. Acknowledging this fact is vital in developing an effective anti-fraud response. Individual services need to understand where the risk of fraud lies and the consequences of those frauds (whether that be financial, reputational or other) to enable them to develop an appropriate risk based response.

Key to this is an effective counter fraud culture that reinforces the Council's zero tolerance toward fraud; a culture that enables individuals to identify potential fraud and empowers them to report their concerns in a safe and secure manner to the appropriate people at the right time.

During 2019/20, the following actions have been undertaken:

- An A-Z of fraud has been created and published on the Council's intranet & wiki pages for employees to access. The aim of the A-Z is to provide an easy to access compendium of fraud risks for employees to access, that will increase their awareness of those risks. It provides a brief description of the different types of fraud risks that both the Council and individuals may be exposed to ranging from the Abuse of a position of trust to the Council's Zero tolerance policy.

There are also a number of real life examples of frauds conducted against local authorities and other public bodies to demonstrate that these are real risks.

- In addition to the A-Z, a series of six fraud awareness poster have been designed and are displayed in the Municipal Offices, Civic Offices and the Molson Centre Prominently displaying these fraud messages throughout our main buildings will increase our employee's exposure to the risks of fraud and provide practical advice on how and where to report concerns. The posters highlight key fraud messages around;

- The cost of fraud
 - An employee's duty to protect Council funds from fraud
 - Reporting a concern (whistleblowing)
 - Money Laundering
 - Bribery and Corruption
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- The Council's Whistleblowing Policy has been reviewed and is available to employees on the Council's intranet pages. It is also published on the Council's website enabling staff to safely report allegations of wrongdoing. We have worked with our HR colleagues to raise awareness around when to refer concerns around fraud and financial misconduct to us. This will ensure that all cases are recorded and that the most appropriate action can be taken, not only to investigate the allegation, but also to enable internal audit to consider whether there are weaknesses in the control environment.
 - To promote awareness across the Council, we continue to deliver fraud awareness sessions to services; tailored to their specific needs and/or risks to enable them to correctly identify potential frauds and take appropriate action. Employees' also have access to an online 'e-learning' tool.
 - Adult Social Care is funded by the Council but is administered by the CCG. Audit One are responsible for the investigation of fraud within the CCG, but this does not extend to non-NHS functions. To address this, we have agreed with Audit One that any allegations of adult social care fraud will be referred to the Council's investigation team. We are currently developing a memorandum of understanding to underpin this approach and ensure that all instances of adult social care fraud are correctly reported.
 - Current and emerging risks are identified from a number of sources including the National Anti-Fraud Network (NAFN) and other law enforcement agencies. These are disseminated to relevant Council teams to raise awareness. We also continue to include topical fraud risks in the 'risk round up' newsletter available to all employees. Guidance on how these frauds can be mitigated and what to do if discovered is also included to increase understanding of these risks.
 - We continue to publicise specific fraud threats that are targeted at our residents to help keep them safe from fraudsters purporting to be from the Council. The most recent scam includes offering residents a refund on their Council Tax that they are required to 'claim' via a bogus .GOV.UK website. A warning was sent to all staff, publicised on the website and through our various social media outlets.

Preventing and detecting fraud

Although the detection and recovery of fraudulently obtained finances and assets is important, it is also costly and there is no guarantee that lost monies will be recovered. Therefore, it is imperative that we take all reasonable steps to prevent fraud from entering our systems in the first place.

The protection of assets is one of the five key items of an effective control environment, and thus plays a critical role in the work of internal audit. When determining the Annual Audit Plan, as well as scoping the work programmes for individual assignments, the audit team consider those areas at risk of fraud and ensure that sufficient coverage is given to the identification and testing of anti – fraud controls within those services in order to assess their effectiveness and where appropriate recommend improvements.

During 2019/20, proactive work has also been completed in relation to councillors' allowances, hospitality and subsistence payments, refunds and card transactions. Spot checks have also been completed on a sample of establishments who receive cash income and also on a sample of imprest accounts.

From the sample tested to date, no issues relating to fraud have been identified. Where appropriate, actions to improve the existing controls have been highlighted to the relevant departments.

As well as the register of interests for Members and Senior Managers which is published in the accounts, the council maintains a register of interests for all staff. In September 2019, staff were reminded to declare any relevant interests. 19 declarations were made, none of which had a material impact on their role. A review of the process for declaring and recording interests will be carried out by the Monitoring Officer and the Head of People and Culture in 2020/21.

The audit team has also completed a review of creditor's payments in order to identify potential duplicate payments. Any queries have been passed to the Finance Service Desk for investigation. Other data matching exercises using Council Tax, NDR and Licensing information has also been undertaken. The Strategic Lead for Fraud is currently reviewing the results of these matches.

Participation in the National Fraud Initiative (NFI)

The NFI is a Cabinet Office initiative matching data from a number of public and private organisations to identify potential fraud which takes place on a cyclical basis.

The most recent NFI exercise (2018/19) has identified 4248 matches in 59 separate reports each categorised by NFI as high, medium or low risk. Each report has then been risk assessed with actions taken based on the quality of data, the risk identified and other actions taken.

Based on this information, a number of reports have been closed on the basis that

we are satisfied that no further action is required. In total, 373 matches have been identified as not requiring further review in this way, all in respect of duplicate creditor matches.

Of the remaining matches, the following action has been taken:

3875	Total number of matches remaining
2988	Number of individual matches reviewed
2271	Closed – no issue identified
696	Closed – information in match was already known
17	Closed – match relates to Housing Benefit – referred to DWP
46	Investigations are ongoing
1	Number of frauds identified
5	Number of errors identified
£14,668.01	Amount of overpayments identified
44 (75%)	Number of reports where the review have been completed
12 (20%)	Number of reports where reviews are ongoing

The level of fraud/error that has been identified as a result of this exercise continues to be minimal. Less than 1% of matches have been found to be fraudulent or erroneous. This provides assurance that the Council has good data quality and processes in place to identify potential fraud issues.

Fraud referrals

Allegations are received from a variety of sources, including members of the public, internal teams, the Police, the NFI exercise and the Department for Work and Pensions (DWP).

In 2019/20, the Council received 248 referrals relating to allegations of fraud or financial misconduct (to 23 March 2020).

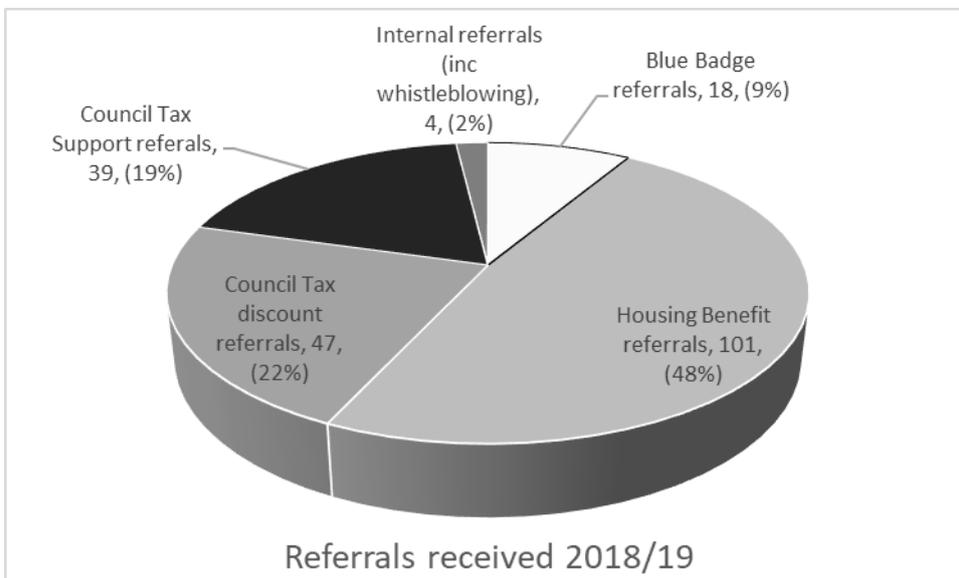
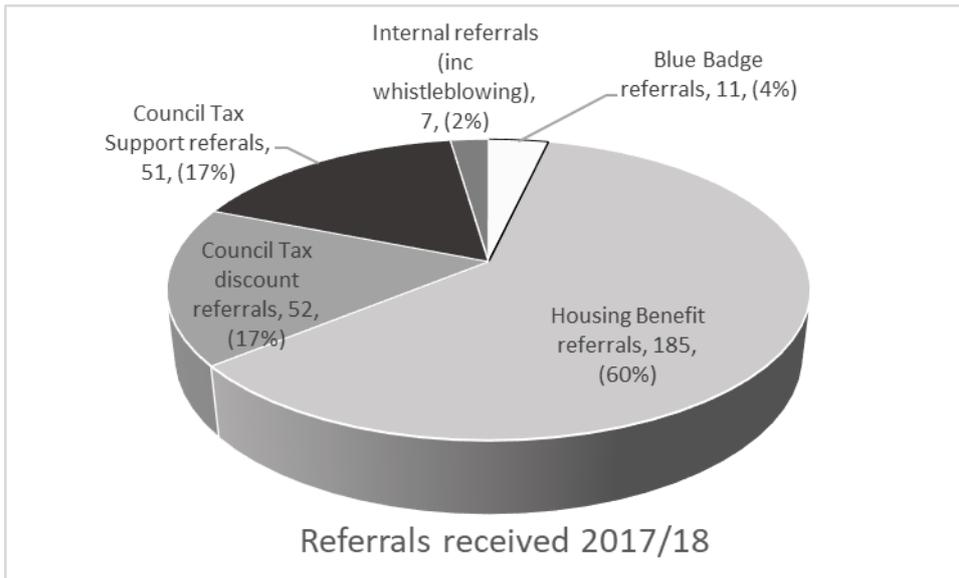
45 referrals were identified as requiring no further action, mainly as a result of there being no offence, or no benefits/discounts in payment.

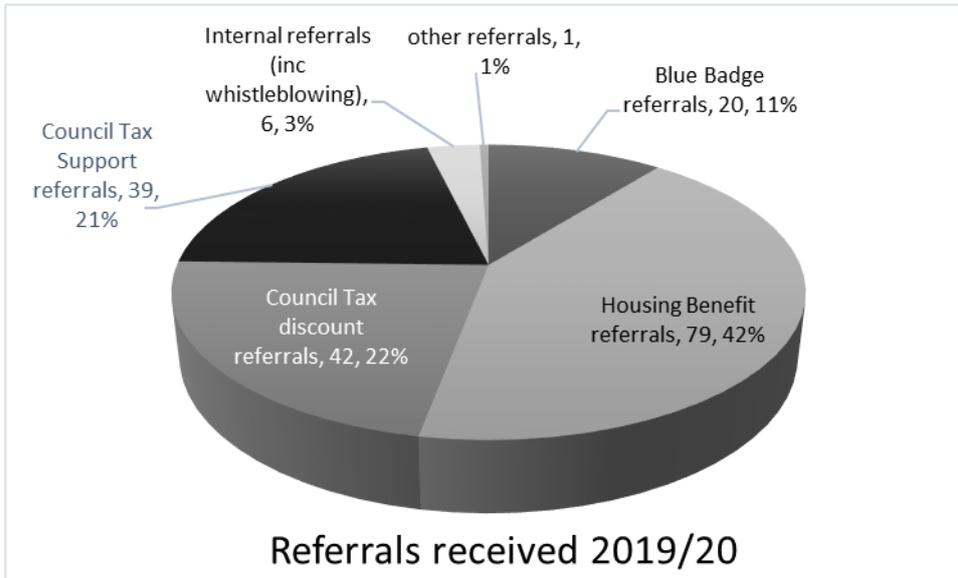
A further 79 have been sent to the Department for Work and Pensions (DWP) to consider investigation for Housing Benefit offences. The number of referrals to DWP

continues to fall as a result of the ongoing rollout of Universal Credit.

There were 81 referrals in relation to Council Tax fraud. This figure is marginally lower than 2018/19 referrals but it continues to indicate that there is an awareness both externally and internally to report abuse of the Council Tax system.

The charts below provide details of the types of referral received and show the changes in fraud reporting trends over the past three years.





Internal investigations 2019/20

Six internal allegations have been reported during 2019/20. Investigations have been conducted by HR and service areas with specialist support from Internal Audit where appropriate. Issues raised included alleged abuse of position, corruption and misuse of grant award.

6	Number of allegations of fraud/financial misconduct reported
0	Number referred to other agencies (eg Police)
4	Number of investigations completed
0	Resigned/Dismissed
1	Other action taken (including management advice, warnings, review of systems/processes)
3	No issue identified

Of the four completed investigations, no wrongdoing was established. One investigation highlighted that the Council was exposed to the potential for officers (and those having resigned) to use privileged commercial Council information for their own gain, or to the detriment of the Council. Suggested actions have been discussed with People and Culture to address this.

Disabled Persons Blue Badge Scheme

The Blue Badge (Disabled Parking) Scheme provides a national arrangement of parking concessions for those people who have a permanent or substantial disability. The misuse of the Blue Badge scheme undermines the benefits of the scheme, impacts upon local traffic management and creates hostility amongst other badge holders and members of the public. It can result in a genuinely disabled person being unable to access designated parking spaces.

The following action has been taken in relation to misuse of the blue badge scheme:

20	Number of allegations of misuse received for investigation
16	Investigations completed
0	Sanctions applied for misuse
3	Badges withdrawn or refused
3	Other action taken
10	No misuse identified
	Number of parking charge notices issued for misuse
0	Number of warning letters issued to badge holders

The number of blue badge allegations continues to rise slowly, with the majority of allegations relate to the misuse of blue badge parking concessions by persons other than the badge holder. Although, no actual misuse has been identified in those cases investigated, advice has been given to ensure that the badge holder and/or 3rd party are aware of their responsibilities.

Through the excellent work of our Civil Enforcement Officers we have identified potentially serious cases of misuse, involving the use of a blue badge belonging to a person who has passed away and the use of the counterfeit (photocopied) badge. These cases are ongoing.

Council Tax investigations

From those Council Tax referrals the following outcomes were achieved:

32	Number of Council Tax Support investigations completed
£8k	Reduction in the amount of Council Tax Support
£17k	Amount of overpaid Council Tax Support
2	Number of sanctions applied
55	Number of Council Tax discount investigations completed
£26k	Increase in amount of Council Tax available for collection

Other investigations

During 2019/20, a procurement fraud was uncovered that has ultimately led to a Competition and Markets Authority (CMA) investigation into anti-competitive practices.

£5.5k	Grant award identified as incorrectly claimed
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It was identified that a grant awarded through a Government initiative administered by the Council did not meet the criteria for payment. Closer inspection of the circumstances around this award led to further issues being identified that potentially constituted anti-competitive behaviour by a supplier/intermediary. As a result, tighter procedures were drafted and a fraud awareness session was delivered to the team administering the grant to minimise the risk of further anti-competitive practices entering the grant award system.

Through the actions taken, losses to the Council have been minimised and action is being taken to recover the incorrectly awarded grant. The integrity of the scheme has been protected and the anti-competitive practices referred to the appropriate enforcement agency.

Third party requests for information

The fraud team continue to play an important role in assisting other enforcement agencies to prevent and detect crime and protect the public purse. The team are the single point of contact for the Department for Work and Pensions (DWP) fraud investigation team, who have responsibility for investigating allegations of Housing Benefit Fraud and also for other enforcement agencies including the Police, UK Border Agency and other Local Authorities.

337	Number of DWP requests for information
255	Number of Police requests for information
243	Number of 'other' enforcement agency enquiries

Pursue- Being stronger in punishing fraud and recovering losses

As a matter of routine, all overpaid monies are considered for recovery. The Council has a robust debt recovery strategy to maximise the recovery of such debts.

Increases in Council Tax liability due to the removal of single person discounts are pursued through adjustment of the individual Council Tax bill and collected as part of normal council tax collection processes.

The Council will always consider prosecution of offenders where there is sufficient evidence and it is in the public interest to do so. It will also consider the use of alternative penalties in certain circumstances for less serious offences, including the offer of an administrative penalty or simple caution.

In 2019/20, one Administrative Penalty and one simple caution were offered and accepted as an alternative to prosecution for Council Tax Support offences.

Future developments

For 2020/21, we will review our current Anti-Fraud and Corruption Strategy and accompanying Fraud Response Plan against the forthcoming revised local authority counter-fraud strategy, Fighting Fraud and Corruption Locally, due to be published by the Chartered Institute of Public Finance & Accountancy (CIPFA) on 26th March 2020. This will ensure that our strategy continues to reflect best practice within local government and provide the best defence against the risks of fraud.

We will continue to update and enhance the fraud A-Z with further examples of real frauds, to make clear that the risk of fraud is a real risk that must be taken seriously. We will also produce a further set of fraud awareness posters to provide further insight into the specific types of fraud that the Council may be subject to.

A policy and procedures to protect the Council from the corporate offence failure to prevent the criminal facilitation of tax evasion, will be produced and brought before the Audit Committee for approval in 2020.

The Audit and Assurance Team will continue to develop internal data matching exercises on sets of data not currently reviewed by the National Fraud Initiative. Additionally, there is an ongoing tender exercise to facilitate data matching of Council Tax single residency discounts against credit reference data. This will enable the Council to review all its single residency discounts and remove those that are no longer appropriate. It is anticipated that this will be operational by June 2020.

A planning exercise for the proactive fraud work for 2020 – 2021 has also been completed and is ready to be allocated to the audit team.