

## AUDIT AND GOVERNANCE COMMITTEE

<b>DATE</b>	<b>12<sup>th</sup> November 2020</b>
<b>REPORT OF</b>	<b>Director- Resources &amp; Governance</b>
<b>SUBJECT</b>	<b>Half yearly fraud update:2020/21</b>
<b>STATUS</b>	<b>Open</b>

### 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.

### 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 so far in 2020/21, this update 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. This update highlights the work carried out in each of these areas and demonstrates the Council's continuing commitment to minimise the risk of fraud.

## **Acknowledging and understanding fraud risks**

- 1.3. The COVID 19 pandemic has significantly increased the risk of fraud to individuals, businesses and central/local government. Fraudsters quickly targeted the public, preying on their anxieties and concerns to offer fake health care goods such as masks, hand sanitisers or even fake test kits. As the governments financial response took shape, fraudsters continued to target the public, offering fake income tax or council tax refunds and other fake financial incentives. These frauds commonly use phishing e-mails or texts (mishing) to lead individuals to a fake website where they steal personal information.
- 1.4. The Council's response has been to include a warning to businesses and the public over the risks of fraud. These were quickly placed on the COVID-19 guidance and support pages on the Council website, with specific scams affecting council services (such as Council Tax) being highlighted on the relevant service areas web pages and the fraud web pages. Links to Action Fraud and the 'Take five to stop fraud' campaign have provided further information to help keep the public safe.
- 1.5. To implement the Government's commitments to support businesses and communities, councils were tasked with quickly designing and introducing various schemes, such as shielding hubs and the small business support grants scheme. Key to the success of these schemes was the early recognition within this council that they were susceptible to fraud. The Audit & Assurance team have supported the development of these schemes to minimise the risk of fraud losses whilst enabling those who need and are entitled to receive assistance.
- 1.6. Whilst some of the fraud risks that have arisen from the pandemic are almost immediate, such as those in the business support grant scheme, others may only appear once the economy begins to recover. For example, an increase in the number of Council Tax Support claims may not mean an increase in fraud at the time of the claim, but as people return to work or their circumstances change, this is where there is a potential for fraud/error if these changes are not reported. We will continue to work with colleagues in Local Taxation & Benefits to ensure all suspicions are referred to investigation as appropriate, to minimise any losses.
- 1.7. The pandemic, and specifically the effect on working patterns has necessitated a review of our fraud awareness activities. Whilst the online content remains available, the visual reminders in offices are no longer effective as the majority continue to work from home. Early discussions with the Learning & Development team have identified an opportunity to create a series of short online videos, covering the various aspects of fraud. These will be developed over the coming months.
- 1.8. Outside of the pandemic, we have worked with the procurement team (jointly with NLC) to develop a fraud risk assessment and will be facilitating a workshop with them in the near future. This will ensure that the greatest fraud risks are identified, and mitigated, thus protecting the whole procurement cycle.

- 1.9. Work is also being undertaken with the CCG to ensure that adult social care fraud is adequately understood and mitigated. A risk assessment is being developed and will be followed by a fraud awareness programme for CCG employees involved in adult social care funding, as well as those working for Focus. The aim is to ensure that instances of potential adult social care fraud are identified and referred to the Council to investigate.
- 1.10. When planning individual internal audit assignments, the controls relating to the prevention of fraud continue to be subject to risk assessment and if appropriate the effectiveness of their operation will be tested.

### **Preventing and Detecting Fraud**

- 1.11. Part of the Government response to the Covid pandemic has been to provide financial support to the various sectors affected. Local Councils have been tasked with administering parts of these support packages, such as the small business grants scheme.
- 1.12. With the emphasis being on providing support to local businesses as quickly as possible, the Council developed a process to enable payments to be made quickly whilst protecting against fraud. Businesses were required to provide evidence to support their application, checks were made against the Business Rates data held and anomalies were identified. Further evidence was obtained where necessary to ensure the payments were made to the correct businesses.
- 1.13. Information on the latest scams were disseminated quickly to the teams administering the grants, enabling further checks to be made where necessary. The result has been that locally, the scheme has not been defrauded by any of the national company scams that have been prevalent.
- 1.14. Our processes also developed to take account of other emerging frauds, particularly around late notifications of occupancy of properties. These applications were subject to further checking and four cases were referred to the fraud team to investigate. As a result, three applications were not paid, totalling grants worth £45,000 as it was not believed that the applicants were actually occupying the premises and a fourth has returned a £10,000 grant, after it was established they were not the actual occupiers.
- 1.15. Below is a breakdown of payments made and those rejected due to our processes in place.

Applications for business support grants	3174
Number of individual businesses supported	2701
Total paid out to local businesses	£31,370,000
Applications rejected in total	473

Rejected as more than one application had been made for an individual business	96
Rejected as the business did not have business premises	40
Rejected as the business was not in North East Lincolnshire	76
Rejected as the business did not meet the eligibility criteria	218
Rejected as they were not the business rates payer	25
Rejected as the property was empty	14
Rejected as a result of fraud investigation	4

- 1.16. The Audit and Assurance team were also invited to review stock control arrangements for the Shielding Hub grocery boxes and PPE. In both cases a balance had to be struck between control and the level of resultant administration. As part of this review, we developed spreadsheets and other records to ensure there was both a clear audit trail and useful management information whilst minimising re-keying of data and maintaining integrity of the records. Particular consideration was given to the segregation of duties to minimise errors and reduce the risk of irregularities going unaddressed.
- 1.17. The Covid pandemic has also had an effect on our ability to conduct day to day investigations. Since March, we have been unable to conduct face to face interviews either formally or informally, visit people's homes or other premises. This has required us to review and adapt our working processes. We have developed a method of telephone interviewing in order to conduct informal interviews and this is enabling us to continue to conduct our investigations in a safe manner.
- 1.18. Work is also underway with colleagues in the Health & Safety team, Legal services and other enforcement services to develop and implement a Covid secure method of conducting face to face interviews under caution in the office environment. It is anticipated that these interviews will resume shortly where they are necessary.
- 1.19. Whilst the Covid pandemic has dominated much of the counter fraud work undertaken (and will continue to do so) and how we conduct that work, we continue to support the National Fraud Initiative (NFI). Datasets are currently being submitted to the Cabinet Office and the next exercise should be with us in January 2021.
- 1.20. The Anti-fraud and Corruption Strategy is also in the process of being reviewed to take account of the latest Fighting Fraud and Corruption Locally strategy published by Chartered Institute of Public Finance & Accountancy (CIPFA) earlier this year.

- 1.21. We are also at an advanced stage in the procurement of data matching software to enable us to begin the rolling review of Council Tax single person discounts. The review will enable us to quickly identify potential households that have more than one adult in them that may no longer be entitled to a single residency discount. This will enable us to increase the amount of Council tax available for collection. It is anticipated that the review will provide an additional £100k of Council Tax for collection. It will also support our response to the NFI single residency discount data match.
- 1.22. As part of its audit plan, Internal Audit is carrying out some specific proactive fraud work reviewing the controls in place for specific areas of risk, and where appropriate, carrying out substantive testing to establish the effectiveness of the controls and identify any unusual transactions. Testing is currently ongoing on areas including agency workers, credit card transactions and income management processes.

### **Pursue – Being stronger in punishing fraud and recovering losses**

- 1.23. All losses identified are pursued in line with the Council's debt recovery strategy.
- 1.24. All appropriate cases are considered for prosecution in line with the Council's policy on prosecution, taking into consideration both the evidential and public interest tests in the Code for Crown Prosecutors, however the Covid pandemic has meant that we have been unable to conduct interviews under caution due to the closure of offices.
- 1.25. 16 completed Council Tax Support investigations have identified excess awards of £9,186.22 with a further £6,303 of future awards ended in the period up to 30th September. One case is awaiting the offer of a simple caution as an alternative to prosecution.
- 1.26. 10 completed Council Tax discount investigations have identified increases in liability totalling £1,582 with a further £3,545 in backdated liability available for collection.

## **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, never more so than during the current pandemic to ensure help and support reaches those in need and entitled to it.

### **3. OTHER OPTIONS CONSIDERED**

No other options were considered. The production of a six-monthly update is considered good practice.

### **4. REPUTATIONAL 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. This update helps mitigate that reputational risk by providing assurance to stakeholders on how the risks are managed.

### **5. FINANCIAL CONSIDERATIONS**

There is no additional expenditure required as a consequence of this update. 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 update.

### **6. LEGAL IMPLICATIONS**

There are no direct legal implications arising from the report.

### **7. 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.

### **8. WARD IMPLICATIONS**

No specific ward implications.

**9. BACKGROUND PAPERS**

Anti-fraud and corruption strategy (October 2017).  
Annual fraud report 2019/20

**10. CONTACT OFFICER(S)**

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