

AUDIT AND GOVERNANCE COMMITTEE

DATE	22nd April 2021
REPORT OF	Executive Director- Environment, Economy & Resources
SUBJECT	Annual Fraud Report 2020/21
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.

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 2020/21, the attached reports helps the Committee discharge these responsibilities.

1. BACKGROUND AND ISSUES

The Council's strategy to combat fraud, corruption and misappropriation was approved by Audit Committee in January 2021. In developing the strategy, the Council has adopted the five key principles included in 'FIGHTING FRAUD AND CORRUPTION LOCALLY -a strategy for the 2020's'¹. These are:

- Govern – having robust anti-fraud arrangements embedded throughout the organisation
- Acknowledge - acknowledging and understanding fraud risk
- Prevent - preventing and detecting fraud
- Pursue - punishing fraudsters and recovering losses

¹ [Fighting fraud and corruption locally, a strategy for the 2020's](#) was published in March 2020

- Protect – Protecting the council from fraud

1.1. 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. This risk is heightened during periods of increased workloads and responses to major events such as the current COVID pandemic.

The risk is identified on the operational risk register.

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 & Governance Committee to consider an Annual Fraud Report is a part of its Terms of Reference.

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. 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.

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 (January 2021).

10. CONTACT OFFICER(S)

Peter Hanmer, Head of Audit and Assurance x3799

Mark Edwards, Strategic Lead Fraud x3916

Sharon Wroot
Executive Director- Environment, Economy & Resources

The
Assurance
People



NORTHERN LINCOLNSHIRE
BUSINESS CONNECT

North East Lincolnshire Council

Annual Fraud Report

2020/21

Introduction

The North East Lincolnshire Council Anti-fraud and corruption strategy sets out our approach to minimising the risk of fraud and corruption occurring, detecting its possible occurrence and the actions we will take when fraudulent activity is suspected and identified.

This report highlights the work which has been carried out under the key principles of:

- Govern - having robust anti-fraud arrangements embedded throughout the organisation
- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses.
- Protect - Protecting the council from fraud

Govern – having robust anti-fraud arrangements embedded throughout the organisation

In March 2020, the national ‘Fighting Fraud and Corruption Locally’ strategy was updated and in doing so has strengthened its emphasis on strong leadership and governance. In January 2021, the Audit & Governance Committee approved an updated Anti- fraud and Corruption Strategy to reflect this emphasis.

In updating the strategy, it was therefore, important to set out a clear and unambiguous message from the highest offices of the Council that fraud and corruption will not be tolerated. A foreword endorsed by both the Chief Executive and Leader of the Council provides such a message.

Whilst the strategy has been updated, the risk of fraud has not changed. However, new opportunities for fraudsters have arisen, such as exploitation of the Covid 19 pandemic. Therefore, it is now as important as ever to ensure that our response is as robust as possible to protect public funds, through good governance, awareness of the fraud risks, the ability to prevent and detect fraud and in taking action against those that seek to defraud us.

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.

The Pandemic risk

The COVID 19 pandemic 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.

The council's response was to include warnings 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.

At an early stage in the pandemic, councils were given key roles in the Government's COVID response, particularly in relation to providing financial support to businesses and communities. Councils were tasked with quickly designing, introducing and maintaining various schemes, such as shielding hubs and a suite of the business support grant schemes.

Within NELC, key to the success of these schemes in providing swift financial support whilst minimising the risk of fraud was the early recognition of those risks within the various schemes. Involving the Audit & Assurance team in the development of the schemes has helped to minimise the risk of fraud losses whilst enabling those who need and are entitled to receive assistance.

Some of the fraud risks that have arisen from the pandemic are almost immediate, such as those in the business support grant schemes. However, 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.

Although the pandemic has dominated 2020-2021, we have continued to raise awareness and understanding of fraud risks. We have:

- Reviewed the Anti-Fraud and Corruption Strategy to ensure that it remains up to date and relevant in line with the latest Local Government best practice. The strategy has been revised to take account of the 'Fighting Fraud and Corruption Locally, a Strategy for the 2020's' document published in March 2020. This strategy places further emphasis on ensuring that the culture of zero tolerance toward fraud is set at the very top of the organisation. Our revised Strategy includes a foreword from both the Chief Executive and Leader of the Council that demonstrates this commitment.

- Worked with services to identify and mitigate fraud risks, such as the procurement team. This has resulted in the development of a fraud risk assessment, that has identified fraud risks throughout the procurement cycle. The workshop, run virtually via MS Teams enabled the procurement team to identify processes and procedures already in place that mitigated those risks, but also to identify actions that would further strengthen those processes. The result has been an increase in awareness of the fraud risk within the procurement cycle, with clear actions to reduce that risk and protect the council finances, thus strengthening governance in this area.
- Agreed a memorandum of understanding with Audit Yorkshire in order to protect public funds administered on behalf of NELC by the North East Lincolnshire Clinical Commissioning Group (CCG) and vice versa. We are also developing a fraud risk assessment for adult social care fraud risks.
- Continually identify emerging risks 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. Significant amounts of intelligence regarding new and existing COVID scams and frauds, mainly around business grant frauds has been received and used to protect the integrity of the grant schemes.
- We 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.

The pandemic, and specifically the effect on working patterns has necessitated a review of our fraud awareness activities. Whilst online content remains available, the use of visual prompts and reminders in offices is no longer effective as the majority of colleagues continue to work from home. To ensure that the fraud awareness message is maintained and available to colleagues, we will develop a series of short online videos covering various aspects of fraud in the first quarter of 2021-22.

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

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 carrying out substantive testing to establish the effectiveness of the controls and identify any unusual transactions. Improvements are recommended to be made to controls to mitigate any risks identified.

During 2020/21, proactive work has also been completed in relation to the recruitment of agency workers. Spot checks have also been completed on a sample of establishments who receive cash income. The overall management of imprest accounts has also been reviewed.

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.

Business support grants

With the emphasis being on providing urgent support to local businesses, 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.

Information on the latest scams and frauds were quickly disseminated to the teams administering the grants, enabling further checks to be made where necessary. Based on intelligence received, retrospective checks were also conducted on previous grant awards where necessary to ensure they have been paid correctly. The result has been that locally, the schemes has not been defrauded by any of the national company scams or grants paid into accounts highlighted as belonging to fraudsters.

As the schemes have evolved, so have the methods used by fraudsters to obtain those grants. 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. More recently a number of applications from a single business address raised concerns. Enquiries established that none of the businesses were indeed trading from the premises and the grant applications were declined.

Below is a breakdown of payments made and those rejected due to the measures in place.

Number of individual grants paid	10,851
Total paid out to local businesses	£48,851,432

Applications rejected in total	835
Rejected as more than one application had been made for an individual business	197
Rejected as the business did not have business premises	85
Rejected as the business was not in North East Lincolnshire	105
Rejected as the business did not meet the eligibility criteria	304
Rejected as they were not the business rates payer	25
Rejected as the property was empty	14
Rejected as business failed to respond to challenge over eligibility	95
Rejected as a result of fraud investigation	10

Further post assurance work is ongoing using central Government and banking information to identify false or erroneous grant claims.

The Audit and Assurance team were 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.

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.

In January 2021, the latest NFI data matching results were released. The exercise has identified 3,081 matches in 45 separate reports. The Fraud and Audit teams will review these matches and take action as appropriate to ensure any losses are identified and recovered.

The previous NFI exercise has been completed. Below is a summary of its findings:

2991	Number of individual matches reviewed
2970	Closed – no issue identified or information was already known

17	Closed – match relates to Housing Benefit – referred to DWP
1	Number of frauds identified
5	Number of errors identified
46	Investigations ongoing
£14,668.01	Amount of overpayments identified

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

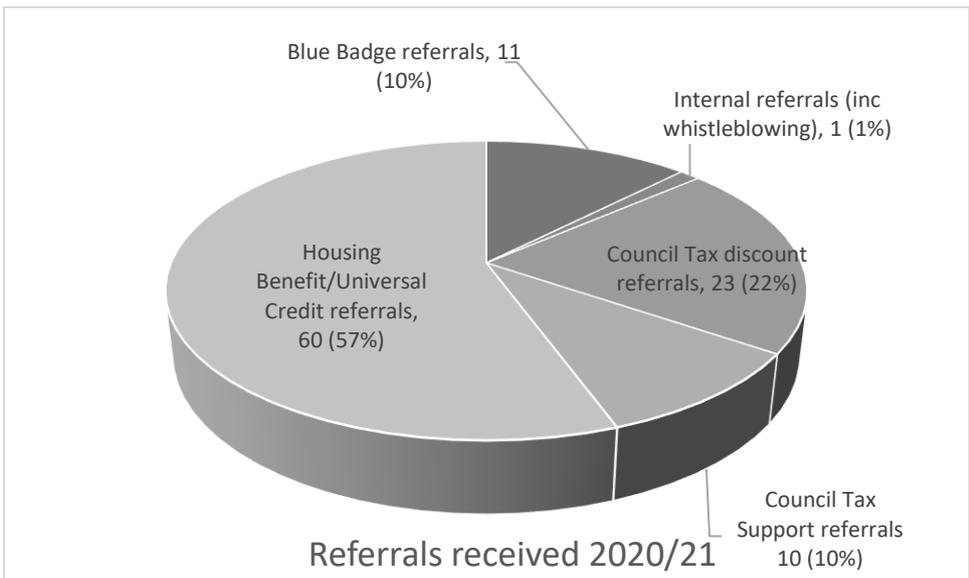
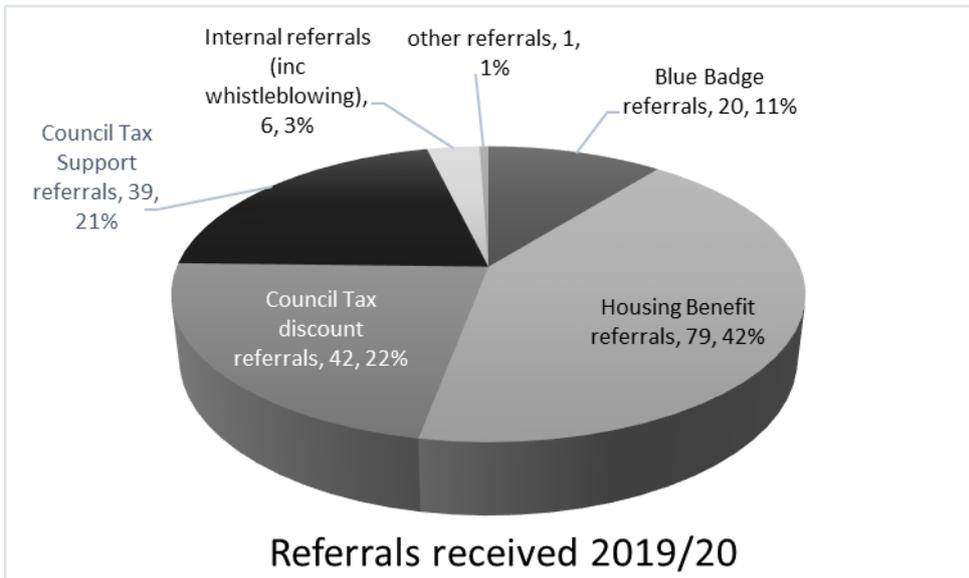
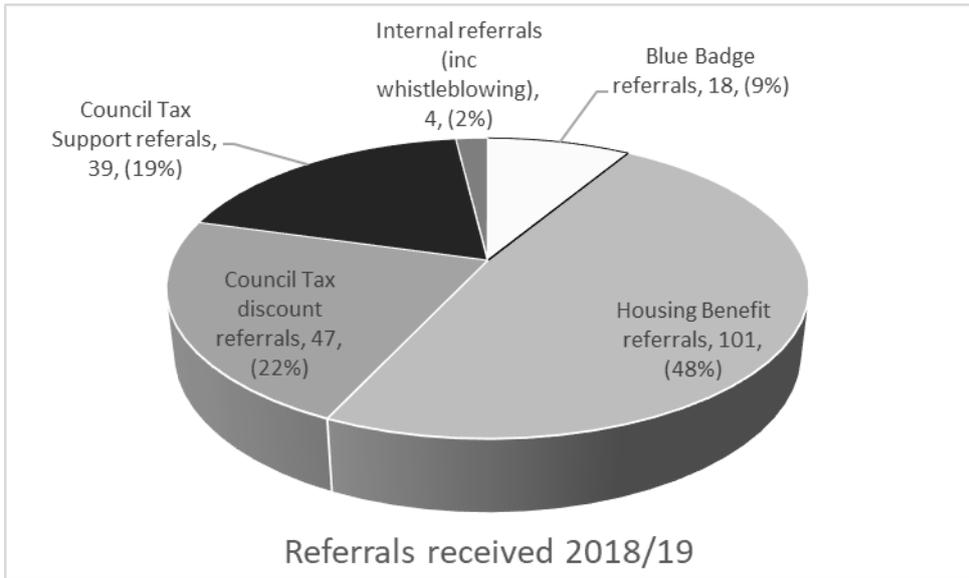
Allegations are received from a variety of sources, including members of the public, internal teams, the Police, the NFI exercise and the Department for Work and Pensions (DWP).

In 2020/21, the Council received 132 referrals relating to allegations of fraud or financial misconduct (to 29 March 2021) significantly fewer than in previous years.

The reduction has been seen across all types of fraud referral and in the main is likely to be as a result of the pandemic. Internally, our employees have been stretched delivering additional support throughout the pandemic. From the public's perspective, ensuring their health and wellbeing is likely to have been the main priority, coupled with lockdown restricting peoples movements reducing the potential for identifying and reporting potential fraud.

The number of referrals to DWP continues to fall as a result of the ongoing rollout of Universal Credit.

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



Investigations

The pandemic has 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.

Such has been the success of this method of working, we will continue to conduct such interviews where appropriate, once pandemic restrictions are lifted.

We have also been unable to conduct formal interviews under caution due to the pandemic. We have worked 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 once office restrictions are lifted.

Internal investigations 2020/21

One internal allegation has been reported during 2020/21. This was an allegation of abuse of position of trust. Enquiries established that the individual had not abused their position.

It is concerning, although understandable that the number of internal allegations has reduced compared to previous years. As the workforce has increasingly worked from home due to the pandemic, they may have been less likely to identify some types of potential fraud or financial misconduct that may previously have been identified in the workplace. Likewise, increased demand for council services throughout the pandemic may have reduced the time available to conduct checks that may identify fraud or financial misconduct.

We will develop a new suite of fraud awareness tools for employees to support the new working environment.

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:

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

The number of blue badge allegations has also decreased this year, again likely to be due to the pandemic. The various lockdown periods and advice to stay home and work from home where possible has had an impact on the number of car journeys made and to peoples travel habits potentially reducing the opportunity for blue badge misuse or for members of the public to spot it and report it.

Council Tax investigations

58 investigations have been completed achieving the following outcomes:

27	Number of Council Tax Support investigations completed
£9k	Reduction in the amount of Council Tax Support
£17k	Amount of overpaid Council Tax Support
0	Number of sanctions applied
31	Number of Council Tax discount investigations completed
£9k	Increase in amount of Council Tax available for collection

Council Tax single residency review

The single residency review commenced on 1st March 2021. This 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 by matching Council Tax data to that held by a credit reference agency.

This will increase the amount of Council Tax available for collection and thus available for use on council priorities. 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.

In the initial stage, 2,792 letters have been sent to residents asking them to confirm their entitlement to the single residency discount. To date we have received 1,471 responses with 340 potential changes being reported.

On completion of the initial stage of the review, checks will be conducted on a monthly basis to identify new changes in credit reference data that may indicate a household is no longer entitled to the single residency discount. This monthly review will ensure that discounts that are no longer appropriate are removed quickly allowing the council to maximise the amount of Council Tax it can collect.

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.

The number of DWP requests for information has fallen significantly due to DWP investigation staff being re-assigned due to the pandemic. It is anticipated that levels of DWP enquiries will increase again next year.

33	Number of DWP requests for information
236	Number of Police requests for information
155	Number of 'other' enforcement agency enquiries

Pursue- Being stronger in punishing fraud and recovering losses

Post payment assurance work around business support grants is being undertaken to identify any grants that may have been paid incorrectly. This is particularly important given the Government's emphasis on getting payments out quickly to support businesses. The council will pursue recovery of any incorrectly paid/fraudulent claims.

All losses identified (including those identified from reviews of single residency discounts) are pursued in line with the Council's debt recovery strategy.

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.

However, at present we are unable to conduct interviews under caution due to restrictions in place due to the pandemic This will impact on our ability to prosecute appropriate cases at present.

Protect – protecting the council from fraud

The measures that the council have in place as highlighted in this report – from governance through to the pursuit those who defraud, demonstrate the councils zero tolerance policy in the fight to protect the council and the public funds it administers from fraud.

To build on the protections we have in place, we will undertake the following in 2021/22.

- We will review our Fraud Response Plan to ensure that it continues to reflect best practice and is compatible with other council policies and procedures, such as the Whistleblowing policy.
- We will develop a new method of raising fraud within services awareness (including the use of short videos) to take account of the change in working arrangements that have been implemented as a result of the pandemic.
- The Bribery and Anti-Money Laundering policies will be reviewed and revised as necessary to ensure the council continues to meet its obligations in respect of preventing bribery and reporting suspicious financial activity.
- Complete work on a fraud risk assessment for adult social care fraud and develop provide a fraud awareness training for colleagues delivering adult social care financial assessments.
- A draft plan for proactive fraud work to be completed in 2021/22 is also in the process of being developed. The focus of the work within this plan will relate to the change in working practices that took place during 2020 and whether this has had an impact on controls relating to expenditure and authorisation.