

Audit and Governance Committee

DATE	11/11/2021
REPORT OF	Executive Director – Environment, Economy and Resources
SUBJECT	Half yearly fraud update 2021/22
STATUS	Open

CONTRIBUTION TO OUR AIM

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.

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 2021/22, 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 and Governance Committee in December 2020. The framework follows national guidance as laid out in the document 'Fighting Fraud and Corruption Locally -a strategy for the 2020's', and is based upon the key principles of:

- Govern
- Acknowledge and understand
- Prevent and detect
- Pursue
- Protect

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.

Govern

- 1.3. The council has a robust framework of procedures and controls to minimise the risk of losses due to fraud our anti-fraud and corruption strategy makes it absolutely clear that fraud and corruption will not be tolerated
- 1.4. The strategy is supported by a fraud response plan. This has been reviewed and refreshed in tandem with the council's Whistleblowing policy and procedures to ensure that there is a consistent message to support those who wish to report fraud both internally or externally.
- 1.5. Further work to review the Bribery and Money Laundering policies will be undertaken in the second half of the year, to ensure they continue to provide clear guidance to protect the council from the risks of bribery, corruption and money laundering.

Acknowledging and understanding fraud risks

- 1.6. The COVID 19 pandemic created new opportunities for fraudsters to exploit individuals, businesses and central/local government. As a council we were quick to publicise these new dangers and to provide support to local businesses and communities through the various schemes we were tasked to deliver. It is testament to those services that delivered these schemes that this support was delivered quickly with the minimum of losses due to fraud, due to the understanding of the fraud risk from the outset.
- 1.7. But as the country comes out of restrictions and we establish a new 'normal', fraudsters will continue to exploit weaknesses. It is imperative that if and where procedures were revised or relaxed as a consequence of the pandemic, that these are reviewed to ensure that processes that were put in place to prevent fraud are still appropriate and being followed.
- 1.8. Additionally, as the economy recovers, people may no longer require (or be entitled to) the levels of support they have been receiving from the council. Should individuals fail to report their revised circumstances, the council may continue to meet the cost of services to the detriment of the taxpayer. In particular, the support provided to households to pay their Council Tax through the Council Tax Support scheme by its nature is open to such abuse. 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.
- 1.9. We have identified changes in the way that fraudsters are attempting to commit mandate fraud, whereby they mislead the council into changing a supplier's bank details to divert funds into their own accounts. Fraudsters are using technology to hack email addresses and spoof emails to make them look like genuine ones from suppliers. This type of fraud has also become more prevalent over the past few months, with numerous attempts reported by public authorities.
- 1.10. Whilst the council has procedures to mitigate such attempts, unfortunately it was subject to a successful attempt to defraud in August, causing a loss of

£22K. On this occasion there was a failure to appreciate the fraud risk resulting in the change to bank details not being independently verified, allowing the fraud to occur.

- 1.11. As a result, we have taken the opportunity to review those procedures in relation to requests for changes to supplier information. Changes have been identified and implemented to provide additional security when updating such information. Additionally, we have provided more information for services on mandate fraud in our fraud A-Z and posted a warning message on the council intranet. We have also run a fraud awareness session to update knowledge around mandate fraud and the potential consequences.
- 1.12. Whilst any loss to fraud is regrettable, it should be acknowledged that there were over 500 requests for bank account changes in the past two years, none of which were fraudulent. Indeed, in the same month as this fraud occurred, the vigilance of the finance helpdesk team prevented a further £32k being paid out in another attempted mandate fraud.
- 1.13. Key to preventing further losses is understanding the risks associated with changes to supplier information and the methods fraudsters use to steal council money. The additional procedures, fraud awareness and guidance that we have provided will help to ensure that future losses to mandate frauds are minimised as far as is possible.
- 1.14. The changes in how and where we work will change the way we deliver general fraud awareness training in future. It is clear that there will be less of an emphasis on office-based activity and therefore, new ways of providing (virtual) awareness sessions are being considered, including the use of a series of short fraud awareness videos.
- 1.15. A plan for proactive fraud work is being completed as part of the Internal Audit plan for 2021/22. 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.
- 1.16. In addition, when planning individual internal audit assignments, the controls relating to the prevention of fraud are subject to risk assessment and if appropriate the effectiveness of their operation will be tested.

Preventing and Detecting Fraud

- 1.17. One significant area of fraud risk is that of Council Tax single residency discounts.
- 1.18. The council has approximately 76,000 Council Tax payers, of which about 26,000 receive a single residency discount entitling them to a 25% reduction in their Council Tax bill. If only 1% of those receiving a discount fail to tell us that they are no longer entitled to it, this could equate to around £90,000 per year in revenue the council is unable to collect.

1.19.To mitigate this risk, we have procured the services of a Credit Reference Agency to conduct monthly checks to identify households that may have more than one adult resident. Our first review took place in March and identified 2,793 accounts that required a review. All individuals were written to and asked to confirm their entitlement to the discount. As at 5.10.21, we have received 2,275 responses of which 300 have had their entitlement to a discount removed. A further 278 Council Tax payers who failed to respond to our letters have also had their discounts removed.

1.20.Below is a breakdown of the March review carried out in March 2021.

Summary	Values
Number of letters sent	2792
Number of reminders sent	988
Number returned	2275
Number returned with no change reported	1855
Number of changes reported	555
Number of SRD's removed as a result of change reported	300
Number of SRD's removed as customer failed to reply	278
Total number of SRD's removed	578
Charge generated	£202,060
Additional liability	£30,826

1.21. From July, we have commenced a monthly review to identify new households that may have more than one adult resident. The results of these monthly reviews will be included in future reports to Audit Committee.

1.22In addition to the review, a further 17 Council Tax discount investigations have completed, identifying increases in liability totalling £1,780 with a further £2,521 in backdated liability available for collection.

1.23. We continue to participate in the National Fraud Initiative data matching exercise to identify fraud and error across a number of council services. This includes data matches in relation to COVID business support grants paid in 2020/21 that may indicate fraudulent or erroneous payments. Whilst this work is not yet complete, of the matches checked there none have been identified as incorrectly paid.

1.24. 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. Work is currently ongoing in relation to credit notes, petty cash and credit card expenditure and mobile phone usage. Recently completed work on travel costs highlighted a large decrease in expenditure related to travel in 2020/21. No areas of concern in terms of the claims made were highlighted.

Pursue – Being stronger in punishing fraud and recovering losses

1.25.All losses identified are pursued in line with the Council's debt recovery strategy.

1.26.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.

Protect

1.27.The actions outlined above enable the council to protect itself from fraud and the harm fraud can cause both to the council and to the residents of North East Lincolnshire.

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. 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. 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.

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 (December 2020).
Annual fraud report 2020/21

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