

# Audit and Governance Committee

<b>DATE</b>	21/04/2022
<b>REPORT OF</b>	Executive Director – Environment, Economy and Resources
<b>SUBJECT</b>	Annual Fraud Report 2021/22
<b>STATUS</b>	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 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 2021/22, this report helps the Committee discharge these responsibilities.

## 1. BACKGROUND AND ISSUES

The council's framework to combat fraud, corruption and misappropriation was approved by Audit and Governance Committee in January 2021. 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

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, 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, as the production of an Annual Fraud Report is 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.

### **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 (January 2021).

## **12. CONTACT OFFICER(S)**

Peter Hanmer, Head of Audit and Assurance x3799

Mark Edwards, Strategic Lead Fraud x3916

**Sharon Wroot**  
**Executive Director – Environment, Economy and Resources**

The  
Assurance  
People



NORTHERN LINCOLNSHIRE  
BUSINESS CONNECT

# **North East Lincolnshire Council**

## **Annual Fraud Report**

**2021/22**

## 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.

Our approach to delivering the strategy is led by the Audit & Assurance team, in which the Counter Fraud and Audit functions work collaboratively to deliver the response.

This report highlights the work which has been carried out across the council during 2021/22 under the key principles of:

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

## Govern

The council has a robust framework of procedures and controls to minimise the risk of losses due to fraud.

The council's anti-fraud and corruption strategy was updated and approved by Audit & Governance Committee in January 2021. The strategy is strongly influenced by 'Fighting fraud and corruption locally (FFCL)- the local government counter fraud and corruption strategy 2020' and provides the basis for our anti-fraud activities.

We have undertaken an assessment of our counter fraud arrangements measured against a checklist provided as part of the FFCL strategy. The conclusion of this work is that the council has many of the components of a strong anti-fraud culture. It has also identified areas where we can strengthen that culture further. In particular, we will confirm that our partners sign up to our Reporting a Concern (Whistleblowing) policy and confirm that our registers of gifts, hospitality and interests are appropriately monitored and reported on. These will be addressed in 2022/23.

Consideration is also being given to obtaining an independent audit of our counter fraud arrangements, to provide further assurance that our fraud response is appropriate and meets the needs of the council.

The council's Fraud Response Plan and Reporting a Concern (Whistleblowing) policy have been reviewed and updated to ensure there is a consistent message to support those who wish to report fraud both internally or externally. No significant changes have been made to either document.

The Anti-bribery policy has also been reviewed to ensure it remains fit for purpose.

Additionally, further guidance on Conflicts of Interest has been provided and publicised to all employees. The guidance provides clear and concise advice on what constitutes a conflict of interest, employee responsibilities and the mechanism for declaring such conflicts.

All our policies and plans are published on our website and internally as appropriate to ensure they are available to staff and the general public.

## Acknowledge and understand

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 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.

There has been a clear understanding of the fraud risks associated with providing financial support under these schemes, demonstrated in particular, through the various business grants schemes the council has administered. By understanding the nature of the risks, the council worked collaboratively to implement robust controls, minimising the impact of fraud.

However, as the country comes out of restrictions and we establish a new 'normal', fraudsters will continue to look to identify and exploit weaknesses. The Audit Team will therefore be reviewing procedures that were revised or relaxed as a consequence of the pandemic, to ensure that processes that were put in place to prevent fraud are still appropriate and being followed.

Additionally, as the economy recovers, we will maintain a focus on areas such as local taxation and benefits to ensure that people are keeping the council updated on any change of circumstances. Particular focus will be placed on those support mechanisms that may have been utilised more during COVID and as the economy recovers, entitlements may have changed

The methods used by fraudsters are continually evolving. None more so than in the commission of mandate fraud, a deception designed to mislead the council into changing a supplier's bank details to divert funds into the fraudster account. 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.

Whilst the council has procedures to mitigate such attempts, unfortunately it was subject to a successful attempt to defraud in August 2021, causing an initial loss of £22K (of which just under £19k has now been recovered). 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.

As a result, the opportunity was taken to review our procedures in relation to changes to supplier information. A number of improvements were identified and have been implemented, providing additional security to the process.

But key to preventing further losses is understanding the risks associated with changes to supplier information and the methods fraudsters use to steal council money. To raise awareness, we delivered a fraud awareness session to those tasked with updating supplier information to update knowledge around mandate fraud and the potential consequences.

More information for services on mandate fraud has been provided in our fraud A-Z page and a warning message was posted on the Council intranet. As part of our plan to deliver online fraud learning tools, a specific awareness module on mandate fraud has been developed and is currently in production.

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.

The pandemic has brought about changes in how and where we work and it is clear that this will continue after the pandemic. The use of visual fraud prompts and reminders in offices is no longer as effective as colleagues spend less time in the office environment. Therefore, in addition to the mandate fraud awareness module, we have produced a general fraud awareness module that once live will be accessible to all staff via the LearnNEL platform. To coincide with the review of the Anti-bribery policy, a bribery awareness video is also under development and we will continue to produce specific online fraud awareness content to support the awareness and understanding of fraud risk.

The identification of emerging fraud risk is essential if we are to understand and mitigate those risks. We continue to identify and monitor risk through alerts issued by law enforcement agencies and the National Anti-Fraud Network (NAFN). These risks are disseminated to the relevant services including finance, local taxation & benefits, electoral services, blue badge administration and business grants teams.

We continue to include topical fraud risks in the 'risk round up' newsletter available to all staff, including tips on how to mitigate the risks and what to do in the event of fraud to increase understanding of fraud risks.

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 2021/22, proactive work has also been completed in relation to cancelled credit balances, compliance with the Finance Manual, travel claims made during the pandemic and the use of mobile phones. Spot checks have also been completed on a sample of establishments who receive cash income.

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](#)

We have continued to administer several business grants schemes as part of the government's response to the pandemic.

As part of pre-payment checks we have made full use of the data matching opportunities provided, including limited company checks, sole trader checks and rogue bank account checks to identify fraudulent or ineligible applications. These checks have been supplemented by use of publicly available data, such as social media sites and the internet to provide further assurance.

Intelligence provided in regular fraud alerts identifying bank accounts, e-mail addresses and telephone numbers used in fraudulent applications has also been used, with applications checked against this data to minimise the risk of a fraudulent application being successful.

As a result, to date we are aware of only 12 fraudulent applications having been made, the majority being stopped pre-payment. To put this in context, since the initial wave of grant schemes announced in 2020, there have been numerous grant schemes under which the council has made 9,524 grant payments with a value of almost £30m to local businesses.

### [Council Tax single residency review](#)

Council Tax single residency discounts (SRDs) are a significant area of risk to fraud and error.

The council has approximately 75,000 Council Tax payers, of which about 27,000 receive a SRD entitling them to a 25% reduction in their Council Tax bill. Evidence suggests that without intervention, the number of SRD's increases due to the failure of a small number of Council Tax payers to report when they are no longer entitled to the discount. This in turn reduces the income available to collect and use on council priorities.

To mitigate this risk, we procured the services of a Credit Reference Agency to conduct monthly checks to identify households that may have more than one adult resident.



These Council Tax payers receive a letter asking to confirm their entitlement to the SRD, with those failing to reply receiving reminder. Those that still fail to respond have their SRD removed.

As of 15<sup>th</sup> March 2022, the monthly reviews have achieved the following results:

3064	Letters sent
1084	Reminders sent
1979	Responses received with no change reported
658	Responses received reporting a change
444	SRD's removed as a result of a change being reported
302	SRD's removed due to failure to reply
746	Total number of SRD's removed
£262k	Annual charge generated
£46k	Additional liability for previous years

We continue to monitor every council tax liability that receives a single residency discount on a monthly basis, in order to quickly amend liabilities, thus ensuring that the maximum amount of Council Tax is available for collection.

#### 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 3,226 matches in 54 separate reports. The Fraud and Audit teams review these matches and take action as appropriate to ensure any losses are identified and recovered.

We have currently reviewed the following:

1342	Number of individual matches reviewed
1324	Closed – no issue identified or information was already known
17	Closed – match relates to Housing Benefit – referred to DWP

0	Number of frauds identified
0	Number of errors identified
11	Investigations ongoing
£0	Amount of overpayments identified

Although there are outstanding investigations, the level of fraud/error identified as a result of this exercise will be minimal. Should all the outstanding investigations identify fraud or error, this would still result in less than 1% of matches being fraudulent or erroneous. This provides assurance that the Council has good data quality and processes in place to identify potential fraud issues.

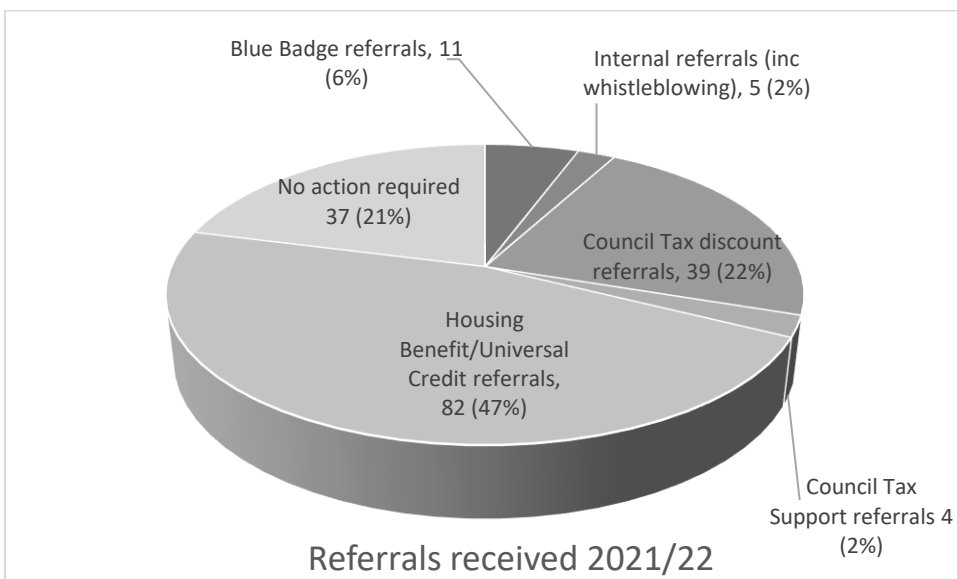
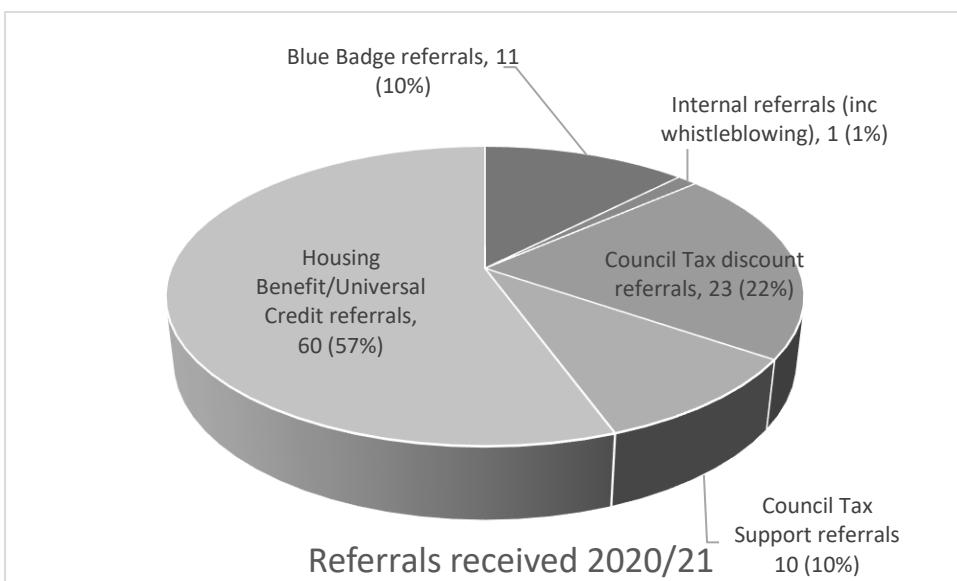
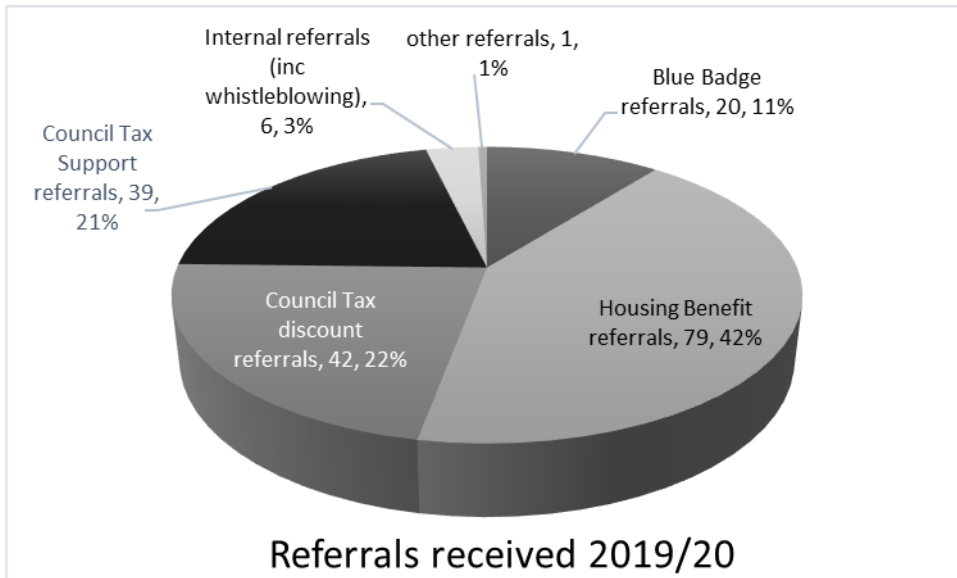
### Fraud referrals

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 2021/22, the number of referrals received relating to allegations of fraud or financial misconduct amounted to 176 (to 15<sup>th</sup> March 2022). The number of referrals recovering to pre-pandemic levels after a drop in 20/21.

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

There has been a continuing decline in the number of referrals suitable for Council Tax Support investigation, due to the ongoing migration of customers onto Universal Credit. Most allegations relating to Council Tax Support also relate to Universal Credit or other Department for Work and Pensions (DWP) benefits and are therefore, referred to DWP to investigate. In 2021/22, 82 referrals were sent to the DWP to consider investigation for Housing Benefit or Universal Credit offences.



### Internal investigations

Five internal allegations have been reported during 2021/22. Of these, two related to mandate fraud, one to alleged theft, one to misuse of resources and the fifth to an

allegation of misreporting of statistics. In four cases, there has been no evidence that Council employees have engaged in fraudulent activity, but advice has been given where appropriate to strengthen procedures to prevent fraud. Enquiries are ongoing in the remaining allegation.

### 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
1	Badges withdrawn or refused
4	Other action taken
5	No misuse identified
12	Number of parking charge notices issued for misuse
4	Number of warning letters issued to badge holders

### Council Tax investigations

The number of reactive Council Tax investigations based on referrals has reduced. This is due to the increase in referrals sent on to DWP to consider for Housing Benefit/Universal Credit investigation, but also because of the monthly single residency review. The review is highlighting cases requiring further proactive investigation and the results of these investigations are included in the review results detailed earlier in this report.

38 reactive investigations have been completed achieving the following outcomes:

2	Number of Council Tax Support investigations completed
£1k	Reduction in the amount of Council Tax Support
36	Number of Council Tax discount investigations completed

£8k	Increase in amount of Council Tax available for collection
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### 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 doubled on last year as DWP colleagues return to investigative duties after the pandemic, although this is still only about 20% of pre-pandemic requests, so further increases are expected.

64	Number of DWP requests for information
239	Number of Police requests for information
111	Number of 'other' enforcement agency enquiries

### Pursue

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.

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.

The COVID restrictions on 3rd party access to council premises has impacted on our ability to conduct interviews under caution over the past two years. However, we are now in a position to conduct such interviews again and will do so where appropriate.

### Protect

The actions outlined above provide a robust response to the risks of fraud occurring, its detection and investigation. They 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.

## Future developments

The Anti-Money Laundering policy will be reviewed and revised as necessary to ensure the council continues to meet its obligations in respect of reporting suspicious financial activity.

We will continue to develop and produce online fraud awareness packages to take account of the shift from predominantly office-based working to home working, enabling employees to access content wherever they work.

We will undertake a review of fraud risk assessments to ensure that services understand and appropriately mitigate fraud risk (including the risk of bribery) and conduct a staff survey to establish the level of awareness and understanding of fraud risks and the actions to take when fraud is identified or suspected.

A draft plan for proactive fraud work to be completed in 2022/23 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.