

Audit and Governance Committee

DATE	10/11/2022
REPORT OF	Executive Director – Environment, Economy and Resources
SUBJECT	Half yearly fraud update 2022/23
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 2022/23, 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. Our supporting policies and procedures are regularly reviewed to ensure they continue to provide clear guidance to protect the council from the risks of bribery, corruption and money laundering. As part of this review process, the Anti-Money Laundering policy is currently under review and an updated version will be produced shortly.
- 1.5. In order to provide independent assurance that our counter fraud arrangements are effective, we have agreed that they will be independently audited by the audit team from Lincolnshire County Council. This work is ongoing and the conclusion will form part of the annual fraud report in April 2023.

Acknowledging and understanding fraud risks

- 1.6. Over the past two years, we have experienced a number of unexpected events that have changed how we live and work. These changes have provided fraudsters with new opportunities to commit offences and these continue to evolve.
- 1.7. The legacy of the COVID pandemic, the rise in fuel prices and the general cost of living has created an ideal environment for professional fraudsters. Many of us will have received a phishing text or e-mail pretending to be from a Government agency or even a Local Authority, in connection with financial or health support during COVID. These have now largely been replaced by similar fraudulent messages encouraging us to 'claim' energy payments. The Council is at no lesser risk to fraud than we are as individuals as we are tasked in supporting the borough and its residents through these turbulent times.
- 1.8. However, as household budgets are stretched, it's not just the professional fraudster that poses a risk. Spiralling household costs may increase the pressure or motivation to commit fraud. It may also make it easier to rationalise committing fraud, due to the pressures being faced; pressures such as being unable to heat the home, buy food to feed themselves or their children, to pay increasing debts, or even the threat of losing the home completely. For others, the motive might be to maintain a standard of living they are used to, or believe they are entitled to.
- 1.9. Add to this the considerable pressures the Council has been operating under and this may lead to increased opportunities to defraud us as we concentrate on 'the day job' at the expense of applying our policies and procedures designed to protect us and our resources from the fraudster.
- 1.10. It is now as important as ever to ensure that all our employees know what fraud looks like, what to do when they suspect it and how to report it. This knowledge will also help them to understand why we have those policies and

procedures in place, rather than them just being a barrier to getting the 'day job' done. Effective counter fraud measures are part of the day job and should not be seen as an unwelcome encumbrance.

- 1.11. To mitigate this heightened risk, we have developed the first two in a series of fraud awareness e-learning modules available on LearnNEL. These have been developed to provide all our employees with a basic understanding of fraud and what to do about it. A third module on Bribery, including the Council's policy on gifts, hospitality and conflicts of interest, will also be live in the coming weeks.
- 1.12. The more employees understand what fraud is, how their service might be targeted by fraudsters and how to respond to instances of fraud, the harder we make it for fraudsters to steal public money. Once all three modules are live, we will work with our communications team to encourage all employees to take the time to access these modules. We will also provide a briefing note for the Extended Senior Leadership Team highlighting the importance and availability of these modules.
- 1.13. A plan for proactive fraud work is being completed as part of the Internal Audit plan for 2022/23. 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. There will also be a review of an establishment which is holding a large cash amount as well as an update on the Council's response to a recent mandate fraud.
- 1.14. 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

- 1.15. Following the successful implementation of the monthly Council Tax single residency review, monthly reviews have continued. Each month every liability with a single residency discount (SRD) is checked against credit reference agency data to identify households that may have more than one adult resident and enquiries are made with those individuals where the data indicates a change. By identifying changes on a monthly basis, this enables the Council to quickly remove any SRD's that are no longer appropriate, maximising the amount of Council Tax available for collection.
- 1.16. In 2022/23 to date, we have taken the following action:

Summary	Values
Number of review letters sent	395
Number of reminders sent	102
Number returned	319
Number returned with no change reported	241
Number of changes reported	78

- 1.17. The monetary value of the changes reported is not currently available as we await recalculation of the affected Council Tax liabilities. The results of these monthly reviews will be included in future reports to Audit Committee.
- 1.18. In addition to the review, a further 30 Council Tax discount investigations have completed, identifying increases in liability totalling £3,633 with a further £5,745 in backdated liability available for collection.
- 1.19. We continue to participate in the National Fraud Initiative data matching exercise to identify fraud and error across a number of council services. Of note from the current exercise is the successful investigation of cases that were identified as potentially having erroneously claimed small business rates relief (SBRR), a COVID business grant or both. A number of cases were examined and whilst it was established most were entitled to the relief and grant, three cases required further investigation.
- 1.20. Of these, one business had closed since the award of the grant and so was no longer liable for business rates. However, of the remaining two, one was found to have been awarded SBRR incorrectly on a second property, resulting in an increase in business rates liability of £1,197 per year and £1,490 in additional liability for previous years. The business was also found not to be entitled to a COVID business grant of £10,000 for the second property and this is also being recovered.
- 1.21. The final investigation identified that a business had been awarded SBRR on two properties. The SBRR was subsequently removed from one property resulting in the liability for business rates increasing from £0 to £4,990 per year. A further £15k liability was also calculated for previous years.
- 1.22. The data submission for the 23-24 National Fraud Initiative exercise is currently being prepared. Results of this exercise are expected to be released in late January 2023.
- 1.23. In addition, the internal audit team have developed the use of data analytics to supersede the use of NFI data and have conducted a review of trade creditor payments from mid 2021 to September 2022. This approach has a number of advantages over the manual check:
- It enables 100% of trade creditor payments to be checked, providing a high level of assurance around duplicate rates
 - It is more focussed and reduces the number of false positives that require further investigation
 - It can be conducted more regularly than the biannual NFI exercise meaning that any duplicated payments can be quickly identified and recovered.
- 1.24. The results of the review are currently being analysed.
- 1.25. 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 mandate fraud, the car hire process and income relating to Allotments. Recently completed work on overtime across the period of the COVID-19 pandemic. No areas of concern in terms of the claims made were highlighted.

Pursue – Being stronger in punishing fraud and recovering losses

- 1.26. All losses identified are pursued in line with the Council's debt recovery strategy.
- 1.27. 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

- 1.28. 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. CHILDREN AND YOUNG PEOPLE IMPLIATIONS

There are no specific implications for Children's Services.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

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

8. CONSULTATION WITH SCRUTINY

Not applicable. This report is subject to discussion with Audit & Governance Committee.

9. FINANCIAL IMPLICATIONS

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

10. LEGAL IMPLICATIONS

There are no direct legal implications arising from the report.

11. 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.

12. WARD IMPLICATIONS

No specific ward implications.

13. BACKGROUND PAPERS

Anti-fraud and corruption strategy (December 2020).
Annual fraud report 2021/22

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