

# **AUDIT AND GOVERNANCE COMMITTEE**

<b>DATE</b>	20/04/23
<b>REPORT OF SUBJECT STATUS</b>	Executive Director – Place and Resources Annual Fraud Report 2022/23 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.

## **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 2022/23, 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 cost of living crisis 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. CHILDREN AND YOUNG PEOPLE IMPLICATIONS**

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 accompanying report.

## **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 (January 2021).

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

Peter Hanmer, Head of Audit and Assurance x3799

Mark Edwards, Strategic Lead Fraud x3916

**SHARON WROOT**  
**EXECUTIVE DIRECTOR – PLACE AND RESOURCES**



# **North East Lincolnshire Council**

## **Annual Fraud Report**

**2022/23**

## 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 2022/23 under the key principles of:

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

## Governance

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 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. The strategy makes it absolutely clear that fraud and corruption will not be tolerated and has the endorsement of the Chief Executive and Leader of the Council.

FFCL includes a checklist enabling the council to conduct a self-assessment of its counter fraud arrangements. This is completed annually and the outcome included as part of this annual report. To provide further assurance that our fraud response is appropriate and meets the needs of the council, we have invited Lincolnshire County Council to provide an independent 'peer review' of our arrangements. This is currently ongoing and the outcome will be reported in the mid-year fraud progress report.

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, our Anti-Money Laundering policy has been reviewed, updated and will be republished once approved by this committee.

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

Over the past three 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.

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.

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.

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.

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.

To mitigate this heightened risk, we have developed three fraud awareness e-learning modules available on Learning Lincs. These have been developed to provide all our employees with a basic understanding of fraud and what to do about it. These modules are:

- Fraud awareness
- Bribery awareness (including the reporting of gifts, hospitality and conflicts of interest)
- Mandate fraud.

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. Employees have been encouraged to complete these courses via their managers, through the posts on the council's internal media and also in the internal Vision magazine.

Additionally, it has been agreed by the council's Assurance Board that the fraud awareness module should be mandatory for all employees. The Member Development Steering Group has also agreed to make the course mandatory for all elected members, such is its importance.

However, simply providing the tools to prevent fraud is only effective if those tools are used and understood. Therefore, we are developing a short staff survey, not only to assess the level of knowledge and understanding of fraud but also to assess our employees' confidence in using those tools (such as the reporting a concern policy). The survey is currently live and employees are encouraged to complete this. The findings, including any actions identified as necessary will be included in the mid-year interim report.

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 local taxation & benefits, electoral services, blue badge administration and finance teams as appropriate. The value of receiving such alerts is clear and is another line in our defence against fraudulent activity.

## 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 2022/23, proactive work has also been completed in relation to allotments income, overtime claims during the period of the COVID-19 pandemic and car hire process. Work is currently ongoing in relation to the controls in place to prevent mandate fraud.

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.

## 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 28,000 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.

Having successfully implemented a monthly review of SRD entitlements in 21/22 as a result of which additional liabilities amounting to £262k were identified, this work has been ongoing throughout 22/23.

As of 9<sup>th</sup> March 2023, the monthly reviews have achieved the following results:

631	Letters sent
198	Reminders sent
412	Responses received with no change reported
156	Responses received reporting a change
61	SRD's removed as a result of a change being reported
37	SRD's removed due to failure to reply
98	Total number of SRD's removed
£30k	Annual charge generated
£3k	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.

The results of the 22/23 exercise have recently been released and have identified 4,915 matches in 27 separate reports. The Fraud and Audit teams will review these matches and act as appropriate to ensure any losses are identified and recovered. From the 20/21 exercise, less than 1% of cases reviewed were found to be fraudulent or erroneous. This continues to provide assurance that the quality of the council's data and processes remains high minimising the risk of losses.

Additionally, the internal audit team have developed the use of data analytics to supplement the use of NFI data and conducted a review of trade creditor payments between October 2021 and October 2022. This approach has a number of advantages over the traditional method of checking NFI matches:

- 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.
- It removes the need to conduct time consuming manual checks.

30,354 invoices were checked with a value of £129M. Of these, six payments were identified as potential duplicate payments totalling approximately £22k. Accountancy Service desk have taken appropriate action.

## Fraud referrals

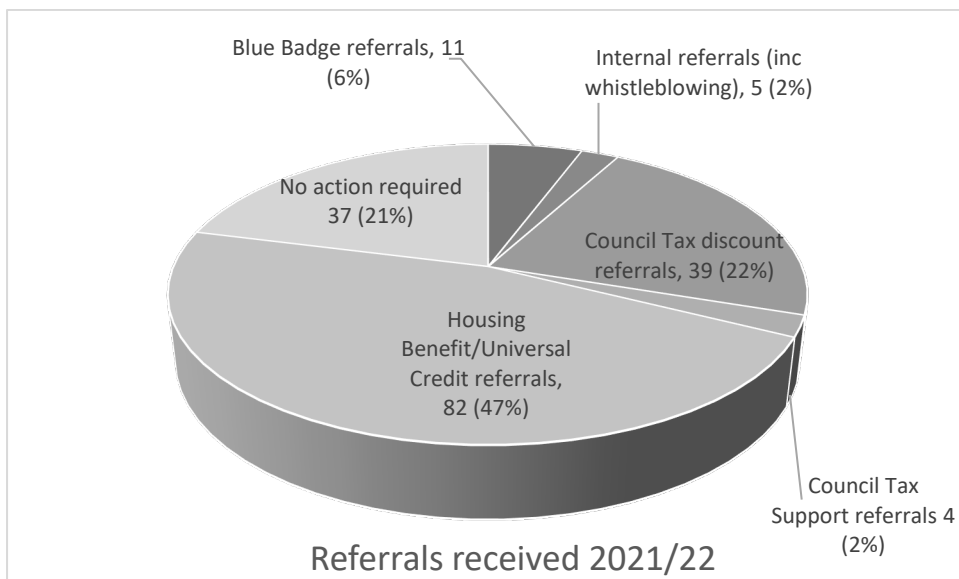
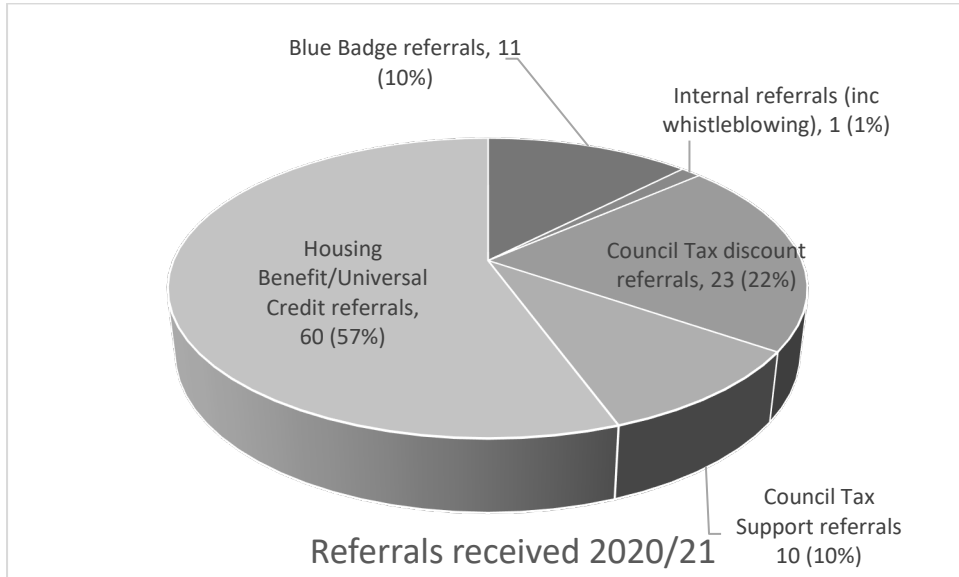
Allegations are received from a variety of sources, including members of the public, internal teams, the Police, the NFI exercise and the Department for Work and Pensions (DWP).

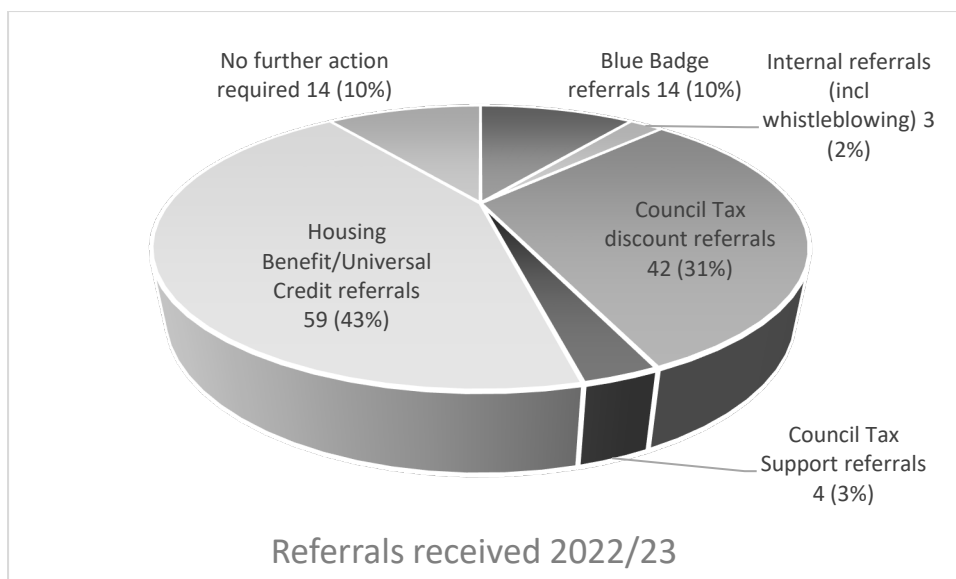
In 2022/23, the number of referrals received relating to allegations of fraud or financial misconduct amounted to 136 (to 9<sup>th</sup> March 2022). This is 40 fewer than in 2021/22. However, this drop is accounted for by a significant decrease in the number of referrals where no further action was required from 37 to 14 and the number of cases referred to DWP also reducing from 82 to 59. The result is a small overall increase in the number of cases suitable for investigation.

The number of Council Tax Support referrals suitable for Council Tax Support investigations has levelled off after declining for a number of years. Most allegations relating to Council Tax Support also relate to Universal Credit or other DWP benefits

and are therefore, referred to DWP to investigate, but there has also been a noticeable reduction in the number of referrals made to DWP over the past 12 months.

The levelling off of Council Tax Support referrals and the reduction in the numbers of referrals sent to DWP may relate to the fact that most Housing Benefit customers have now migrated to Universal Credit and as such referrals are being made directly to DWP, rather than to the Council.





## Internal investigations

Three internal allegations have been reported during 2022/23, two of which constitute disclosures under the Public Interest Disclosure Act. Of these, one related to misuse of council vehicles, one to misuse of data and one to alleged theft.

Five investigations have been completed during 2022/23 (two carried over from 2021/22). Of these cases, two were closed with no issues identified. One resulted in informal management action being taken, one was identified as a clerical error and addressed by the service and the final case resulted in advice being provided to the service area to prevent future issues.

## 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:

14	Number of allegations of misuse received for investigation
14	Investigations completed
3	Offences proven but not in the public interest to prosecute
0	Sanctions applied for misuse

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

Additionally, the operational guidance relating to Blue Badge enforcement has been updated and training sessions have been held with Civil Enforcement Officers to maximise their understanding of Blue Badge offences and the enforcement options (including referral for investigation) available to them.

The Council have also joined a 'Parking Fraud Forum' run by Lambeth City Council with the aim of accessing practical advice and assistance to support Blue Badge enforcement within the borough.

## Council Tax investigations

53 reactive investigations have been completed achieving the following outcomes:

4	Number of Council Tax Support investigations completed
£3k	Amount of Council Tax Support identified for recovery
49	Number of Council Tax discount investigations completed
£13k	Increase in amount of Council Tax available for collection

The increase in the amount of Council Tax available for collection is in addition to that identified as part of the single residency review.

## National Non-Domestic Rates (NNDR)

The National Fraud Initiative (NFI) undertook a one-off data matching exercise based on data provided by local authorities as part of returns made in respect of COVID business grants.

The matches identified businesses that appeared to be operating from more than one property, but received small business rate relief (SBRR) on one or more of those properties. In general, SBRR is only awarded to businesses operating out of one property (although there are exceptions).

As a result, three investigations were conducted. Two resulted in the removal of the SBRR, increasing the amount of the liabilities by £2.4k per year. It was also

established that these two businesses were also liable for a total of £17k in previous years liabilities.

### Third party requests for information

The investigation team continue to support other enforcement agencies in their efforts to prevent and detect crime and protect the public purse, acting as a single point of contact in the Council 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 again doubled on last year as DWP colleagues continue to return to investigative duties after the pandemic, although this is still only about 40% of pre-pandemic requests. It is anticipated that the numbers of requests will again increase next year.

Police requests and those from other agencies have increased by almost 50% on the previous year and in total are now approximately at 80% of pre-pandemic levels.

121	Number of DWP requests for information
341	Number of Police requests for information
151	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 councils Anti-Fraud Strategy and Fraud Response Plan will be reviewed and updated as necessary to ensure they remain relevant and at the heart of our counter fraud arrangements.

The outcome of the peer review will be considered with actions taken to address any areas where improvements can be made.

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).

A draft plan for proactive fraud work to be completed in 2023/24 is also in the process of being developed as part of the audit planning process. This will use the responses to the forthcoming fraud survey and review of fraud risk assessments to highlight areas of priority for future work.