

Report of the: Director of Policy and Resources

Agenda Item No:

8  
27 September

Meeting:

2016

## **NORTH LINCOLNSHIRE COUNCIL**

### **AUDIT COMMITTEE**

## **COUNTER FRAUD PROGRESS REPORT**

### **1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To inform Members of key issues arising from counter fraud work.
- 1.2 Regular reporting on counter fraud issues is an important source of assurance for Members to fulfil their role and provides supporting evidence for the annual approval of the Governance Statement.

### **2. BACKGROUND INFORMATION**

- 2.1 As part of the shared service with North East Lincolnshire a small fraud team has been set up within the overall Audit and Assurance section. The team will focus on preventing and investigating fraud, as well as working in collaboration where appropriate with the Internal Audit team. A joint work plan has been developed as shown on Appendix A, The intention is that over time the fraud team will become self-funding as a result of the losses to the council identified or prevented by it.
- 2.2 This report summarises the actions taken by the Audit and Assurance section in the period to 31<sup>st</sup> August 2016, around the three central anti-fraud and corruption themes of:
  - Acknowledging and understanding fraud risks
  - Preventing and detecting fraud
  - Pursue - Being stronger in punishing fraud and recovering losses
- 2.3 **Acknowledging and understanding fraud risks**
- 2.4 The transfer of responsibility for Housing Benefit fraud to the Department for Work and Pensions has presented an opportunity for the Council to consider the wider fraud risks both prevalent and emerging within the Council.

- 2.5 Whilst the Council can no longer investigate and prosecute Housing Benefit, there are continued risks of fraudulent claims occurring within the Council Tax Support (CTS) scheme. Investigations into CTS can also be used to correct anomalies in Housing Benefit claims.
- 2.6 Another substantial financial fraud risk is the incorrect claiming of discounts and exemptions in order to reduce Council Tax liabilities. Each incorrectly claimed discount or exemption represents a decrease in the amount of income the Council can raise through Council Tax and therefore, spend on essential services.
- 2.7 However, it's not only financial losses that are a fraud risk. There are some frauds that whilst relatively small in terms of financial risk pose a greater reputational risk to the Council. One such area that has been identified is that of school admissions. Each year a small number of schools are oversubscribed, leading to some children being unable to attend their school of choice. In recent years there have been more concerns raised about families providing inaccurate information regarding their address in order to obtain a place at their preferred school. Should this occur, there is a potential hardship caused for those families, who live in the catchment but do not get a place due to the distance criteria and unnecessary appeals panels being required. As demand for school places in certain areas increases, the risk of fraudulent activity increases.
- 2.8 In addition when planning individual internal audit assignments the controls relating to the prevention of fraud are subject to risk assessment and if appropriate testing the effectiveness of their operation.
- 2.9 Some of the further actions proposed for 2016/17 includes:
- Updating of the anti-fraud and corruption strategy
  - Developing fraud awareness campaigns both internally and externally
  - Working with the Strategic Lead (Risk and Governance) on carrying out fraud risk assessments to identify those areas with inherent risk of fraud and corruption
  - Working with the insurance team to identify and then mitigate the risk of fraudulent claims

## **2.10 Preventing and detecting fraud**

- 2.11 By working with the school admissions team, we have developed a more robust declaration on the admission form and included consent for other Council records to be cross-checked. The declaration is designed to make it clear about the individual's responsibility to provide accurate information and of the possible consequences of not doing so, thus providing a strong deterrent to providing false information. The consent will enable us to cross-check the information provided with other information held. This will identify possible incorrect applications and provide an assurance around the accuracy of applications for those oversubscribed schools.

- 2.12 Day to day investigative work is in the main reactive investigations into Council Tax Support fraud and also Council Tax liability fraud (discount and exemption fraud). As previously mentioned, the latter has been identified as a large area of potential loss and therefore, the fraud team are currently developing a methodology for conducting reviews of all Council Tax discounts on a rolling basis (starting with Single Adult Discounts), using data matching techniques to identify awards that may no longer be appropriate. There are currently approximately 24,500 single adult discounts; the discount amounting to approximately £250.00 per year for each discount awarded. If 5% of those discounts are inappropriate, this would increase the amount of Council tax available for collection (and therefore, to spend) by over £300,000 per year..
- 2.13 We continue to participate in the National Fraud Initiative. We are currently preparing for the 2016/17 exercise, whilst the 8302 2014/15 exercise matches have resulted in:
- 6554 records being checked
  - 20 investigations currently ongoing
  - 95 errors being identified and 7 frauds identified
  - £129,386.75 of overpayments being identified to date (that will be subject to recovery action)
- 2.14 There have been 8 internal referrals made to Internal Audit in relation to fraud or financial misconduct, including alleged misuse of flexible working scheme, misuse of internet, misuse of credit card and inappropriate use of Council funds to pay parking fines. Of these, four investigations were/are investigated by Internal Audit, two by HR, one by the Police and one by the credit card provider.
- 2.15 The unitary data hub has now been established, enabling all four Humber unitary authorities to match data with each other and with Credit Reference Agency data for the prevention and detection of crime. The hub will also be used as part of the rolling review of Council Tax discounts.
- 2.16 The fraud team continue to be the single point of contact for the Department for Work & Pensions fraud teams investigating Housing Benefit fraud and also for other enforcement agencies requesting local taxation & Benefits information for the prevention/detection of crime.
- 2.17 The team have also recently joined the Multi Agency Child Exploitation (MACE) initiative, enabling the provision of real time information held by the Local Taxation & Benefits Service to protect vulnerable children. This may also provide a source of fraud referrals in future.
- 2.18 Some of the further action proposed for 2016/17 include:
- Proactive work by internal audit into potential areas of internal fraud
  - Working with Adult Social Care in relation to support for social care

## **2.19 Pursue – Being stronger in punishing fraud and recovering losses**

2.20 The fraud team are currently reviewing their first potential prosecution case in relation to the fraudulent receipt of a Council Tax single person discount and expect this to be referred to the Council's legal services in the near future.

2.21 Two referrals into potential fraud and misuse of financial support for residential care have been received and discussions have taken place with legal services as to whether or not the Council can pursue prosecution in cases where a third party has misused a cared for persons funds causing the Council a loss.

2.23 A third referral involving a failure to declare income as part of the financial assessment process is currently under investigation.

## **3. OPTIONS FOR CONSIDERATION**

3.1 The Committee is asked to consider whether regular reports on proactive and reactive fraud work (similar to those shown in appendix A) will provide sufficient assurance on the adequacy of counter fraud arrangements during 2016/17. The Committee is invited to ask questions about the contents of the report and seek clarification as necessary.

## **4. ANALYSIS OF OPTIONS**

4.1 The progress report is designed to provide this Committee with the assurance required to fulfil its role effectively.

## **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

5.1 Regular reviews of counter fraud arrangements should safeguard the council's assets and ensure that value for money is achieved in the use of resources. Minor costs associated with the telephone and publicity for the Hotline will continue to be maintained within the Finance Service budget.

## **6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

6.1 An Integrated Impact Assessment is not required.

## **7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

7.1 There are no conflicts of interests to declare.

## **8. RECOMMENDATIONS**

- 8.1 That the Audit Committee considers the assurance provided by the progress report on the adequacy of counter fraud arrangements, and:
- 8.2 That the Audit Committee considers whether the counter fraud work programme delivers a sufficient level of assurance on the adequacy of counter fraud arrangements.

### **DIRECTOR OF POLICY AND RESOURCES**

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**Background Papers used in the preparation of this report:** None

Area	Scope	Progress
<b>Creating an anti-fraud culture</b>		
Counter Fraud Strategy/risk assessments	Review strategies at both Councils and look to align where appropriate	Both councils have a current Strategy and they have been refreshed and approved at the appropriate Audit Committee, going forward work will seek to bring these into one strategy which sets out the approach to counter fraud by the team in conjunction with audit.
Publicity	Development of shared internal communication on fraud issues	Initial discussions are required to agree format of joint communications (and whether it should include wider governance issues)
<b>Acknowledging &amp; understanding the fraud risk</b>		
Assist services to identify the specific fraud risks in their area	Interact with services to design/improve processes – raise awareness of potential for fraud	NLC – Adult Social Care. Agreement to provide fraud awareness training to admin staff based on actual cases they have. Meetings held to discuss specific cases & one investigation is currently under way.  Update 31.8.16 – 2 further cases under consideration. Waiting completion of internal review prior to potential joint review with audit
Fraud Newsletter and Council Wide Communications	Publication of internal communications to raise general awareness	At NLC council wide communications and a Fraud Focus magazines have been published. However format and contact and cross council approach is yet to be considered.
<b>Preventing &amp; Detecting Fraud</b>		
Data Matching – National Fraud Initiative (NFI)	Provide data sets to cabinet office, action appropriate matches when 2016 exercise commences	2014 exercise almost complete at both councils- December 2015 CT matches delayed awaiting data hub issues. Once resolved these matches will be addressed by matching to internal records & CRA data. Resources have been set aside in both audit plans) to meet fair processing requirements, extract and submit data and start to address the matches expected in January 2017. The wider use of data analytics in the identification of fraud is being considered 10 days have been set aside to upskill in this area
Data Hub	To identify cross-boundary fraud through data matching	Data matching protocols now agreed – awaiting S151 sign off. Initial data sets to be matched agreed. Update 31.8.16 – Data matching protocols signed off by S151 officer. Initial matches agreed and access to hub complete
Council Tax discount fraud	Proactive CT discount exercise to be undertaken using the data hub to match against CRA data  Develop rolling	Delayed due to concerns over data sharing between authorities. This has now been resolved. Awaiting system access to the Hub.  Awaiting access to data hub software.

	programme of checking discounts	Update 31.8.16 – Process for review programme agreed with Council tax, format of letters/questionnaire agreed. Currently testing data received from CT system, data hub & CRA data matching for accuracy.
Reactive fraud investigation	Majority of investigations will centre around Council Tax Reduction/ Council Tax discount fraud. Other investigations will be examined on a case by case basis.	Current investigations (other than CTR/CT discount) include adult social care. Internal Audit plans each include a contingency to investigate potential fraud, in liaison with the counter fraud team ,
Joint working initiatives	To identify wider fraud losses	Fraud are now a part of the MACE initiative at NLC.
Provision of professionally trained investigation staff	Ensure all staff have the required skills & qualifications to investigate allegations of fraud	One fraud investigation officer currently undergoing 3 <sup>rd</sup> week of corporate fraud investigation training. On successful completion she will be an accredited investigation officer. Update 31.8.16 – Training completed and attained the officer has completed their accreditation. <b>Complete</b>
Proactive – misuse of council funds audits	Rolling programme of audits of potential misuse of council funds.	Both approved audit plans have set aside time to assess the risk of fraud and conduct a series of audits in high risk areas identified
<b>Pursue - sanction &amp; recovery</b>		
Review of Council Tax civil penalties	To consider whether the imposition of Council Tax penalties for failure to report changes could alter behaviour	Yet to start.
Publication of results of successful fraud investigations	Provide a deterrent to others who may consider attempting to defraud the Councils either internally/externally	
Provide disclosure to other law enforcement agencies	Consider requests for personal information held by the councils LT&B service to assist other agencies (ie. DWP, Police, UKBA etc) to effectively tackle other criminal activity	Ongoing. Currently seeking to fill vacant fraud support officer post to fulfil this role. Update 31.8.16 - Looking to recruit an apprentice (shared with vacancy in Insurance)