

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANNUAL FRAUD REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To demonstrate to the Public, Members, our staff and our partners the progress we have made during the year in developing an anti-fraud culture;
- 1.2 To publicise the actions we have taken when fraud or misconduct has been identified.

2. BACKGROUND INFORMATION

- 2.1. The Council's framework to combat fraud, corruption and misappropriation was approved by Audit Committee in January 2016. The framework follows national guidance as laid out in the document "Fighting Fraud Locally", and is based upon three key principles:
 - Acknowledging and understanding fraud risks
 - Preventing and detecting fraud
 - Pursue - Being stronger in punishing fraud and recovering losses
- 2.2. The attached annual report highlights the work which has been carried out by in each of these areas, and demonstrates the Council's continuing commitment to minimise the risk of fraud.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether the annual fraud report provides sufficient assurance on the adequacy of counter fraud arrangements during 2017/18. 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 annual fraud report on the adequacy of counter fraud arrangements.

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Background Papers used in the preparation of this report: None



North Lincolnshire Council

Annual Fraud Report

2017/18

Introduction

As part of its shared service arrangements with North East Lincolnshire Council, the Council has a team of investigators (two investigators, one support officer and a manager) reporting directly to the Head of Audit and Assurance.

This report highlights the work which has been carried out under the three key principles of:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses.

Acknowledging and understanding fraud risks

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, reputation or other consequence) to enable them to develop an appropriate risk based response.

Key to this is an effective counter fraud culture that reinforces the Council's zero tolerance toward fraud. A culture that enables individuals to identify potential fraud and empowers them to report their concerns in a safe and secure manner to the appropriate people at the right time.

During 2017/18, to acknowledge and understand fraud risk the following actions have been undertaken:

- Review of our counter fraud arrangements assessment against the CIPFA Fighting Fraud and Corruption Locally 2016-19 checklist. The conclusion of this work is that generally the Council has many of the components of a strong counter fraud culture, but there are a number of further actions to be undertaken to develop this culture. These are referred to in the revised Anti- Fraud Strategy and in the future developments section of this report.
- The Council's Anti-fraud and corruption strategy has been reviewed and updated to reflect current best practice. The strategy builds on work already undertaken since the creation of a dedicated counter fraud resource in November 2015 and the Audit and Assurance shared service in April 2016;
- The Council's Fraud Response Plan has been updated and provides clear guidance to employees and members of the public on how allegations of

fraud, corruption and financial misconduct should be reported. The plan also sets out how allegations will be dealt with;

- The Council's Whistleblowing policy has been reviewed and was relaunched on 27th March 2018. This has been publicised via a council wide communication with managers advised to bring it to the attention of all those staff who do not have access to Council systems;
- Review of fraud risks has commenced to inform future use of fraud resource;
- Examples of fraud risk are shared in the internal 'risk roundup' publication;
- Alerts around current and emerging fraud risks are received via the National Anti-Fraud Network (NAFN), and disseminated to relevant Council teams to raise awareness.

Preventing and detecting fraud

Although the detection and recovery of fraudulently obtained finance 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 at risk of fraud in order to assess their effectiveness and where appropriate recommend improvements.

During 2017/18 proactive work has also been completed in relation to payments to casual staff. From the sample tested, no issues relating to fraud were identified. Spot checks on imprest accounts have also been carried out.

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. From the 2016-17 exercise the Council have taken action as follows:

4050	Number of matches reviewed
0	Number of frauds identified
147	Number of errors identified
£8k	Amount of Housing Benefit overpayments identified
£1k	Increase in Council Tax liability
53	Investigations ongoing
19	Housing Benefit matches referred to DWP

The value of Housing Benefit overpayments and number of cases of fraud proven has significantly reduced as a result of the responsibility for Housing Benefit fraud investigation being transferred to the Department for Work and Pensions (DWP). Matches requiring Housing Benefit investigation are now referred to DWP and the outcomes are not recorded within Council NFI figures.

Council Tax discount rolling review

A trial programme of rolling reviews of Council Tax single residency discounts was undertaken using credit reference agency data to identify cases where a discount may no longer be appropriate. Two bi-monthly reviews were completed, covering a number of parishes in the borough. The table below summarises the activity and results of that trial.

6752	Number of single residency discounts reviewed
1370	Number of awards identified as requiring further action
1147	Review forms returned
218	Number of changes affecting single residency discount reported
113	Single residency discounts removed due to no response
£62k	Increase in amount of Council Tax available for collection
£7k	Amount of Council Tax available for recovery from increase in previous years liability

Analysis of single person discounts between October 2016 and October 2017 identified that in the parishes that had been subject to the single person discount review there was a decrease in discounts of 0.8%.

In those that had not been subject to the review there had been an increase of 0.9%

The approximate value of savings calculated from this analysis was £62k. This is similar to that reported as a result of the review itself and whilst we cannot say for definite that there is a direct causal link between the review and the movement in discounts in these parishes there is a strong correlation. Further work will now be undertaken to identify how this trial can be rolled out across the borough.

Internal investigations

6 internal allegations have been reported during 2017/18. Investigations have been conducted by HR and service areas with specialist support from Internal Audit where appropriate.

6	Number of allegations of fraud/financial misconduct reported
0	Number referred to other agencies (e.g. Police)
3	Number of investigations completed
0	Resigned/Dismissed
2	Other action taken (including management advice, warnings)
1	No issue identified
3	Investigations ongoing

Three of the investigations relate to allegations of theft, one to alleged timesheet fraud, one to misuse of mileage allowance and the final one to potential grant claim anomalies.

In the cases where other action was taken, preventative advice was given in relation to the theft of Council equipment from an employee's vehicle. In the second case, although there was no evidence in respect of the specific issue, investigation raised control issues and these will be followed up with the service.

As part of the above work, actions have been agreed with relevant services, where applicable to improve the control environment in relation to income and budget management.

School admissions

A process to deter fraudulent applications and provide additional verification to confirm entitlement to school places has been developed. Where a school is oversubscribed, applicant details will be checked against Council Tax records and where inconsistencies are identified further checks can be undertaken. The process was first used for the September 2017 intake.

As a result, three applications were subsequently refused. Of these, two applicants appealed but both appeals were dismissed based on the evidence provided by the investigations thus enabling other eligible children to take up their places at their first choice school.

2017 intake

8	Number of schools oversubscribed
1477	Applications checked
44	Number of discrepancies identified
3	Number of applications that were declined as a result of further investigation

Checks have also been undertaken for the September 2018 intake as follows:

2018 intake

9	Number of schools oversubscribed
1530	Applications checked
87	Number of discrepancies identified
20	Cases referred for further investigation (investigations currently ongoing)

Reactive investigations

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). Allegations have included Council Tax Support and discount fraud and adult social care fraud.

The team have also engaged with other enforcement agencies to identify and pursue the full extent of frauds being perpetrated against them. Of particular note has been a successful joint investigation with DWP. As a result of joint co-operation, the DWP have identified a £9k Housing Benefit fraud whilst as a result of the same investigation the Council has identified a £31k adult social care fraud. Both cases are in the process of being considered for prosecution.

18	Number of Council Tax Support investigations completed
£1.5k	Reduction in the amount of Council Tax Support
£4k	Amount of overpaid Council Tax Support
27	Number of Council Tax discount investigations completed
£3.3k	Increase in amount of Council Tax available for collection

Evidence obtained as part of Council Tax Support investigations has also resulted in £17k of Housing Benefit overpayments being identified.

Information requests

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.

610	Number of DWP requests for information
205	Number of Police requests for information
80	Number of 'other' enforcement agency enquiries

The Council's policy of collaboration with other agencies to combat fraud and other criminal activity was showcased on national TV in September 2017, when one of our investigators appeared on the BBC programme, Council House Crackdown. The programme highlighted the Council's involvement in assisting The Royal Borough of Greenwich to prove an allegation of tenancy fraud that caused them a loss of £29,000. As a result the fraudster was successfully prosecuted and received a 20 month suspended prison sentence and 120 hours community service.

Pursue- Being stronger in punishing fraud and recovering losses

As a matter of routine, all overpaid monies are considered for recovery where appropriate. The Council has a robust debt recovery strategy to maximise the recovery of such debts.

Increases in Council Tax liability due to the removal of single person discounts are pursued through increases to the individual Council Tax bill and collected as part of normal Council Tax collection processes.

We have been working with our insurers to develop a joint approach for taking criminal and civil action against those who make potentially fraudulent insurance claims against the council.

The Council will always consider prosecution of offenders where there is sufficient evidence and it is in the public interest to do so.

Future developments

The updated Council Anti-fraud strategy identifies a number of areas for development including:

- Reviewing the fraud risks facing the Council and working with services at greatest risk to minimise losses
- Measuring the awareness of counter fraud risks among Council staff by conducting biennial surveys to measure strengths and weaknesses in fraud awareness
- Raising the general level of fraud awareness among Council staff
- Identifying opportunities to use data matching techniques to reduce fraud losses.
- Work will continue to introduce a rolling review of Council Tax discounts, using data matching in 'real time' if appropriate to minimise losses through inappropriate discount awards.

In conjunction with a number of neighbouring authorities we have expressed our interest in participating in a cabinet office pilot to use the National Fraud Initiative (NFI) data matching service to identify fraudulent or inappropriate national non-domestic rates (NDR) applications for rate relief.