

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANNUAL FRAUD REPORT 2018-19

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To demonstrate to the public, members, staff and partners the progress made during 2018/19 in developing an anti-fraud culture;
- 1.2 To publicise the actions 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 April 2018. The framework follows national guidance as laid out in the document 'Fighting Fraud and Corruption Locally -The local government counter fraud and corruption strategy 2016-2019', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre 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 carried out 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 2018/19. 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 report is designed to provide the 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 met from the Financial Services 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

2018/19

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, reputational or other) 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 2018/19 the following actions have been undertaken:

- The Council's Anti-fraud and Corruption Strategy has been reviewed and updated to reflect current best practice. The strategy builds on work undertaken since the creation of a dedicated counter fraud resource in November 2015 and the Audit and Assurance shared service in April 2016. The policy was approved by Audit Committee in April 2018 and is published externally and internally;
- A review of the Council's Anti Money Laundering Policy has been undertaken to take account of changes in the money laundering regulations. Although the new regulations do not directly affect Local Authorities, professional advice is that they should follow the spirit of those regulations and therefore, the revised Policy was approved by Audit Committee in January 2019. This again is published externally and internally;
- A review of fraud risk has been undertaken, in the form of a self-assessment carried out by service managers. Each service was requested to complete a short questionnaire and to assess their exposure to fraud using the corporate risk scoring mechanism. Of the respondents 33% assessed their risk as low (green), with the other 67% assessing their risk as medium (yellow).

The focus of our risk assessment work going forward will be to identify further areas of fraud risk to ensure the risks are adequately identified and mitigated. It will also allow the Audit and Assurance team to focus its resources on the areas of greatest risk.

- We also conducted a staff survey to establish the level of understanding of the Council's response to fraud and corruption. Staff were asked to consider a number of statements relating to fraud and corruption and indicate the extent to which they agreed or disagreed with them.

The survey has identified that there is a clear awareness of the Council's commitment to fighting fraud and corruption among staff and of their own personal responsibilities in this respect. It has also highlighted the need to raise the levels of awareness of the Anti-Fraud Strategy and supporting policies, such as the Anti-Bribery and Anti-Money Laundering policies. Whilst the survey indicated a good awareness of the circumstances when staff are required to make declaration of interest, less than 50% said they received periodical reminders to do so.

To promote awareness across the Council, a number of fraud awareness presentations have been developed. These are tailored to the specific audience to maximise their impact. Sessions have been delivered to the Customer Financial Support team (Adult Social Care) and to the Audit Committee.

- Current and emerging risks are identified from a number of sources including the National Anti-Fraud Network (NAFN) and other law enforcement agencies. These are disseminated to relevant Council teams to raise awareness. Examples of fraud risk continue to be shared in the 'risk roundup' publication that is distributed through the internal communication bulletin.
- We have also publicised specific fraud threats that are targeted at our residents to help keep them safe. This included the recent threat from fraudsters purporting to be from the Council offering residents a refund on their Council tax. A warning was sent to all staff, publicised on the website and through our various social media outlets.

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 elements 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 recommend improvements.

During 2018/19 proactive work has also been completed in relation to the Council's compliance with the PCI Data Security Standards; unscheduled visits to review controls; and ongoing work at Leisure Centres. Spot checks on imprest accounts have also been carried out.

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.

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 matches from the next NFI exercise (2018/19) were released at the end of January 2019 (creditor matches in March 2019). Work has started to review these matches.

The most recent NFI exercise (2016/17) has completed with the following results recorded:

4050	Number of matches reviewed
0	Number of frauds identified
168	Number of errors identified
£21k	Amount of Housing Benefit overpayments identified
£8k	Increase in Council Tax liability

In the 2016/17 exercise all potential frauds involving Housing Benefit overpayments of £3,000 or above were referred to the Department for Work and Pensions (DWP) for investigation as required. The results of these investigations are not recorded in the Council figures. For the 2018/19 exercise, all potential frauds involving Housing Benefit, regardless of the amount will be referred to DWP for investigation. Therefore, although the Council will be responsible for checking the NFI matches, identification of Housing Benefit overpayments will be the DWP's responsibility and figures will no longer be included in this report.

Internal investigations

Six internal allegations have been reported during 2018/19. 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)
2	Number of investigations completed
0	Resigned/Dismissed
0	Other action taken (including management advice, warnings)
2	No issue identified
4	Investigations ongoing

Three of the investigations relate to alleged timesheet fraud, one relates to abuse of position by an officer to avoid payment for a service provided, one to issues with the award of a contract and one to potential grant claim anomalies.

The ongoing investigations are being dealt with by either Human Resources or by Audit and Assurance.

School admissions

The process for checking school admission applications to deter fraudulent applications is now into its third year and fully embedded in the admissions process. Feedback from the schools admissions team has been positive: for the 2018 intake there were no offers of a school place withdrawn as the checks undertaken by the Fraud team before allocation day ensured discrepancies had been resolved before the formal offer of a school place was made.

2018 intake

9	Number of schools oversubscribed
1530	Applications checked
255	Number of discrepancies identified
20	Cases referred for further investigation
11	Number of applications where an alternative address was used
5	Number of school places affected
3	Cases taken to appeal
2	Appeals upheld

Additionally, the public are reassured that the Council are taking all reasonable steps to ensure that school places are allocated correctly.

For the 2019 intake there has been an increase in the number of oversubscribed schools that will lead to additional checks being conducted as follows:

14	Number of schools oversubscribed
1986	Applications checked/to be checked

Council Tax discount fraud

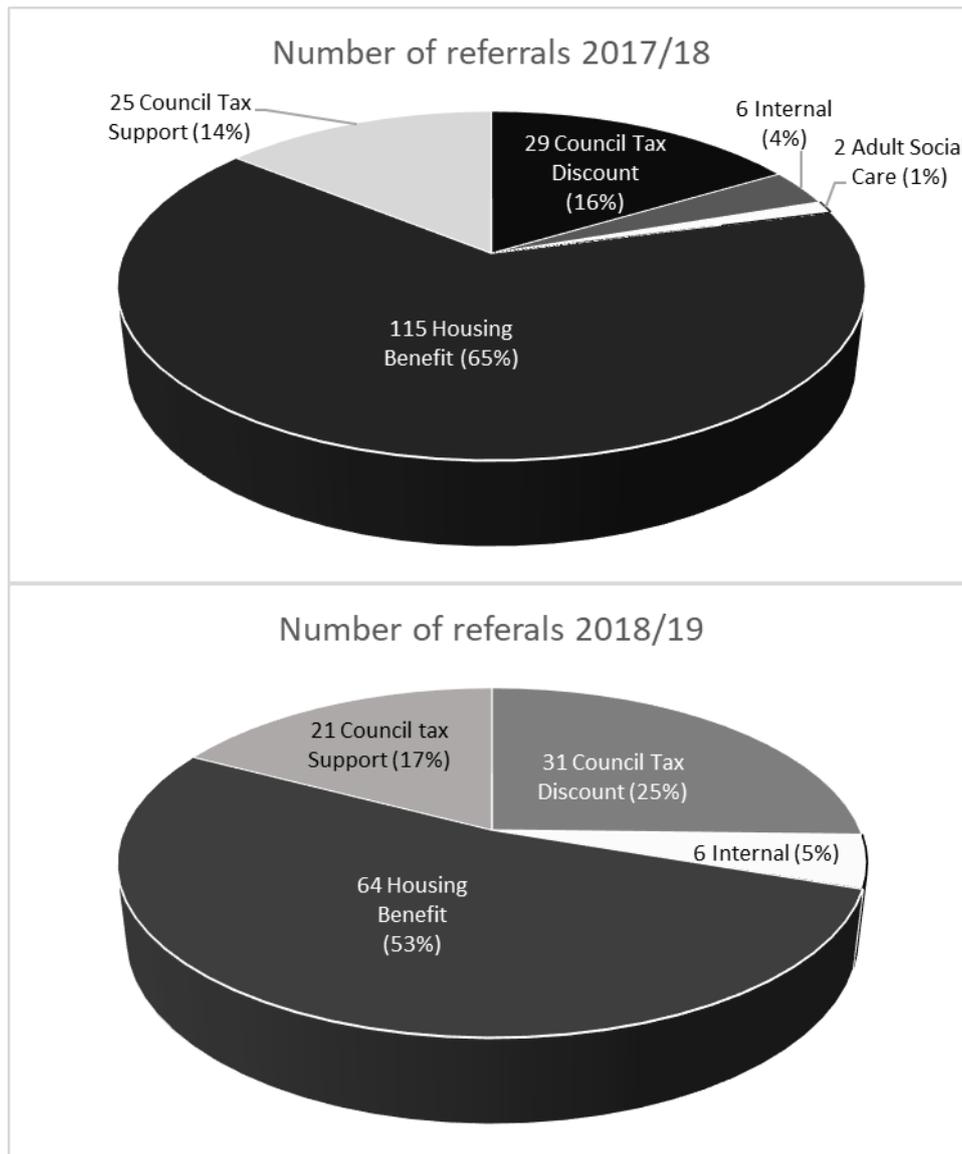
Following on from the successful trial using credit reference data to identify Council Tax Single Residency Discounts that may no longer be appropriate, we have developed a business case for wider use of data matching to reduce fraud and error in relation to single residency discounts. It is anticipated that such a scheme could identify in the region of £100,000 of additional Council Tax for collection.

Reactive investigations

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

In 2018/19, the Council received 85 allegations relating to Housing Benefit or Council Tax Support fraud (to 4 March 2019) of which 64 were sent to the Department for Work and Pensions to consider investigation for Housing Benefit offences. In addition, a further 31 allegations relating to Council Tax discount fraud have been received during the same period.

The number of Housing Benefit allegations has reduced sharply from the previous year. The likely explanation is the roll out of Universal Credit with a resultant decrease in Housing Benefit customers. Allegations of Council Tax fraud remain stable.



From these referrals the following outcomes have been achieved:

9	Number of Council Tax Support investigations completed
£1.7k	Reduction in the amount of Council Tax Support
37	Number of Council Tax discount investigations completed
£9k	Increase in amount of Council Tax available for collection
1	Simple Caution issued

Evidence obtained as part of Council Tax Support investigations has also resulted in £9k of Housing Benefit overpayments being identified. All figures as at 1 March 2019.

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 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.

474	Number of DWP requests for information
264	Number of Police requests for information
74	Number of 'other' enforcement agency enquiries

Pursue- Being stronger in punishing fraud and recovering losses

As a matter of routine, all overpaid monies are considered for recovery. 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 adjustment of the individual Council Tax bill and collected as part of normal council tax collection processes.

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.

In 2017/18, we administered our first Simple Caution for a Council Tax single residency offence. The investigation identified the individual had failed to report his partner was resident in the household and resulted in the evasion of Council Tax amounting to £1,731. The individual was given the opportunity to accept a Simple Caution as an alternative to prosecution. The Caution was accepted. In addition, the full amount of the evaded Council Tax has been recovered.

Future developments

- Development of our fraud risk assessment to include additional areas of fraud risk. We will also consider proactive testing of those risks within services to provide assurance that the level of risk has been adequately identified and mitigated.

- To work with the corporate communications team to develop a fraud communications strategy to address weaknesses identified in the staff survey; to raise awareness of Council policies and processes (including the Whistleblowing process) ; and to provide regular updates on current and emerging fraud risks.
- Continue the rolling review of Council Tax discounts, using data matching to minimise losses through inappropriate discount awards.