

SAFE WELL PROSPEROUS CONNECTED

Annual Fraud report 2020-2021



**North
Lincolnshire
Council**

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Introduction

The North 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.

This report highlights the work which has been carried out across North Lincolnshire during 2020-2021 in response to the strategy and response plan 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.

The Pandemic risk

The COVID 19 pandemic significantly increased the risk of fraud to individuals, businesses and central/local government. Fraudsters quickly targeted the public, preying on their anxieties and concerns to offer fake health care goods such as masks, hand sanitisers or even fake test kits. As the government's financial response took shape, fraudsters continued to target the public, offering fake income tax or council tax refunds and other fake financial incentives. These frauds commonly use phishing e-mails or texts (mishing) to lead individuals to a fake website where they steal personal information.

The council's response was to include warnings to businesses and the public over the risks of fraud. These were quickly placed on the COVID-19 guidance and support pages on the council website, with specific scams affecting council services (such as Council Tax) being highlighted on the relevant service areas web pages and the fraud web pages. Links to Action Fraud and the 'Take five to stop fraud' campaign have provided further information to help keep the public safe.

To implement the Government's commitments to support businesses and communities, councils were tasked with quickly designing and introducing various schemes, such as shielding hubs and business support grants schemes.

Key to the success of these schemes within North Lincolnshire was the early recognition within the council that these schemes were susceptible to fraud. The Audit & Assurance team have supported the development and ongoing implementation of these schemes to minimise the risk of fraud losses whilst enabling those who need and are entitled to receive assistance.

Whilst some of the fraud risks that have arisen from the pandemic are almost immediate, such as those in the business support grant scheme, others may only appear once the economy begins to recover. For example, an increase in the number of Council Tax Support claims may not mean an increase in fraud at the time of the claim, but as people return to work or their circumstances change, this is where there is a potential for fraud/error if these changes are not reported. We will continue to work with colleagues in Local Taxation & Benefits to ensure all suspicions are referred to investigation as appropriate, to minimise any losses.

Although the pandemic has dominated 2020-2021, we have continued to raise awareness and understanding of fraud risks. We have:

- Reviewed the Anti-Fraud and Corruption Strategy to ensure that it remains up to date and relevant in line with the latest Local Government best practice. The strategy has been revised to take account of the 'Fighting Fraud and Corruption Locally, a Strategy for the 2020's' document published in March 2020. This strategy places further emphasis on ensuring that the culture of zero tolerance toward fraud is set at the very top of the organisation. The revised strategy is currently in draft form for discussion with senior management. It will be brought to the audit committee in June or July.
- Worked with services to identify and mitigate fraud risks, such as the procurement team. This has resulted in the development of a fraud risk assessment, that has identified fraud risks throughout the procurement cycle. The workshop, run virtually via MS Teams enabled the procurement team to identify processes and procedures already in place that mitigated those risks, but also to identify actions that would further strengthen those processes. The result has been an increase in awareness of the fraud risk within the procurement cycle, with clear actions to reduce that risk and protect the council finances.
- Continually identify emerging risks 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. We also continue to include topical fraud risks in the 'risk round up' newsletter available to all employees. Guidance on how these frauds can be mitigated and what to do if discovered is also included to increase understanding of these risks.

The pandemic, and specifically the effect on working patterns has necessitated a review of our fraud awareness activities. Whilst online content remains available, the use of visual prompts and reminders in offices is no longer effective as the majority of colleagues continue to work from home. To ensure that the fraud awareness message is maintained and available to colleagues, we will develop a series of short online videos covering various aspects of fraud in the first quarter of 2021-22.

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 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 2020/21, proactive work has also been completed in relation to the recruitments of agency workers. Spot checks have also been completed on a sample of establishments who receive cash income. The overall management of imprest accounts has also been reviewed.

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.

Business support grants

Part of the Government response to the Covid pandemic has been to provide financial support to the various sectors affected. Local Councils have been tasked with administering parts of these support packages, such as the small business grants scheme.

With the emphasis being on providing support to local businesses as quickly as possible, the decision was made to verify applicant information against data already held on the local taxation system. It became apparent as part of the verification process that some ratepayers had failed to notify the council of a change in rate payer and/or business. In such cases extra information was required of the applicant to ensure that the appropriate retail or small business exemptions were applied to correct rate payer and the application could proceed to further stages in the process.

Data-matching tools were used to confirm the trading status of registered companies from the outset with insolvent companies asked to provide evidence of continued trading. As other tools became available to highlight potential insolvency they were used as part of post assurance work, an example being an insolvency checker was used to check non registered companies, as was open source data such as facebook, google and Instagram.

The council also participated in the fraudulent bank account alert system that flagged any grant paid into a suspect account. The National Fraud Initiative(NFI) service was also used to identify closed or closing businesses and bank accounts. This proved useful to identify any businesses trading in March that may have subsequently ceased trading. Finally, we have used internal data matching techniques to ensure that payments to same bank accounts and or same payee can be confirmed as separate heridaments each of which is entitled to a grant.

Our post assurance work continues on later schemes and our risk assessment is updated to reflect new and emerging risks as they are identified and notified to us via various counter fraud agencies.

Any incorrect payments are subject to full recovery processes and any frauds proven will be notified to the relevant agencies under the guidance received.

The result of these robust checks has been that the council has been able to support businesses through this pandemic whilst minimising the risk of fraudulent applications. To date, there has been one confirmed case of fraud identified through these checks and one case that was referred to the investigation team for further enquiries to be made. As a result of these enquiries the business did not pursue its application.

	Number	Value
Number of grant payments made (as at 1.3.21)	10,113	£45, 715,817
Number of grant applications declined	1265	

Due to the number of different schemes and the values of the various grant awards we are unable to calculate the actual value of grants that may have been erroneously awarded or fraudulently obtained were it not for the interventions above. However, to give an indication of potential losses had no checking been undertaken, 626 applications for the first wave of small business and retail, hospitality and leisure grants were declined. These grant awards were worth either £10,000 or £25,000 each and had they been paid would have cost the taxpayer between £6.26M and £15.65M.

The Audit team were also invited to act as ‘critical friend’ in reviewing the controls surrounding stocks of PPE.

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.

In January 2021, the latest NFI data matching results were released. The exercise has identified 6224 matches in 38 separate reports.

The Fraud and Audit teams will review these matches and take action as appropriate to ensure any losses are identified and recovered.

The previous NFI exercise has been completed. Below is a summary of its findings:

2022	Number of individual matches reviewed
1326	Closed – no issue identified
668	Closed – information in match was already known
17	Closed – match relates to Housing Benefit – referred to DWP
34	Investigations are ongoing
0	Number of frauds identified
10	Number of errors identified
£14,092.85	Amount of overpayments identified

The level of fraud/error that has been identified as a result of this exercise continues to be minimal. Less than 1% of matches have been found to be fraudulent or erroneous. This provides assurance that the Council has good data quality and processes in place to identify potential fraud issues.

Internal allegations

Nine internal allegations have been reported during 2020/21 of which one constitutes a whistleblowing allegation.

The number of internal allegations has increased slightly on the previous three years and has included three allegations of fraud or financial irregularity being committed by individuals working on the council’s COVID 19 response.

Of the allegations received, the following action has been taken:

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

Of the seven investigations completed, four established that there was no wrongdoing. A fifth investigation established an intent to obtain payment for sick leave by falsifying records. A disciplinary hearing found the individual guilty of gross misconduct and they were dismissed.

Of the cases that relate to the council's COVID response, two were in respect of alleged false recording of working hours and a third to the false recording of mileage claims. Of the first two cases, one was found to be an error on the part of the individual and this was corrected – no further action being required. In the second case the individual resigned, but disciplinary action was continued and led to a conclusion that the individual concerned would have been subject to summary dismissal.

The actions taken demonstrate that the council have robust procedures in place for dealing with internal allegations of fraud and financial misconduct and use these appropriately as necessary to reinforce the council's zero tolerance policy.

School admissions

The process for checking school admission applications to deter fraudulent applications is now fully embedded in the admissions process and uses data matching techniques to undertake a number of matches between school admissions data and Council Tax data to identify discrepancies in the information provided.

This data matching not only identifies cases where the information provided to school admissions may be incorrect, but also where the information is inconsistent with that held for Council tax purposes, for example where a parent completes a school admissions form and provides their address, but Council Tax records show another adult liable at that property claiming they are the only adult resident. These cases are then investigated by the fraud team.

Feedback from the school admissions team indicates that this process enables them to quickly identify potential incorrect applications and take action before a child is offered a place, thus removing the emotive issue of having to withdraw an offer.

Anecdotally, this level of cross checking also provides assurance to the public in general and in particular to the families looking to place their children in schools that the Council is taking all reasonable steps to ensure that school places are allocated correctly.

2529	Applications checked
219	Number of discrepancies identified
28	Cases requiring further investigation
5	Number of school places affected
2	Cases taken to appeal
2	Appeals upheld

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).

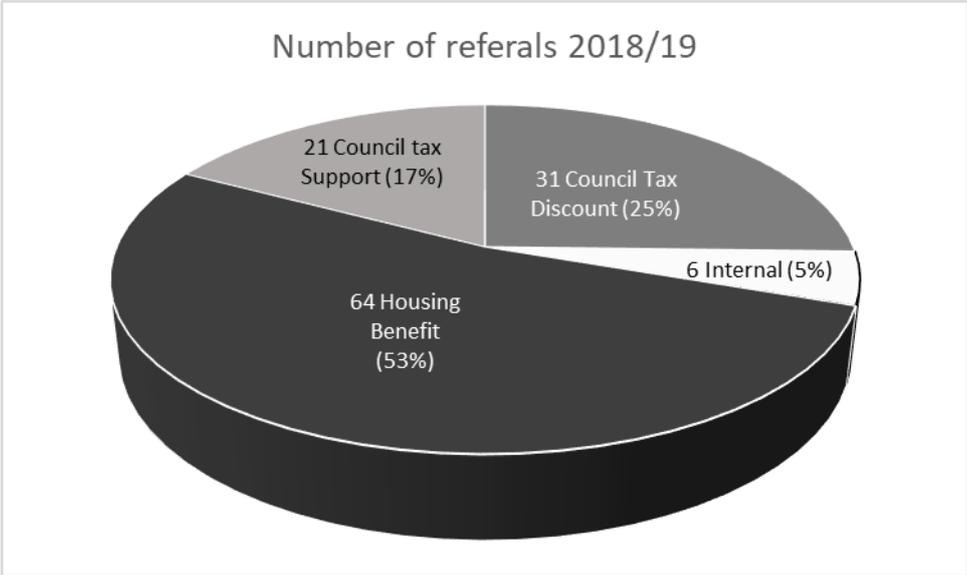
In 2020/21, the Council received 97 referrals relating to allegations of fraud or financial misconduct (to 12 March 2021).

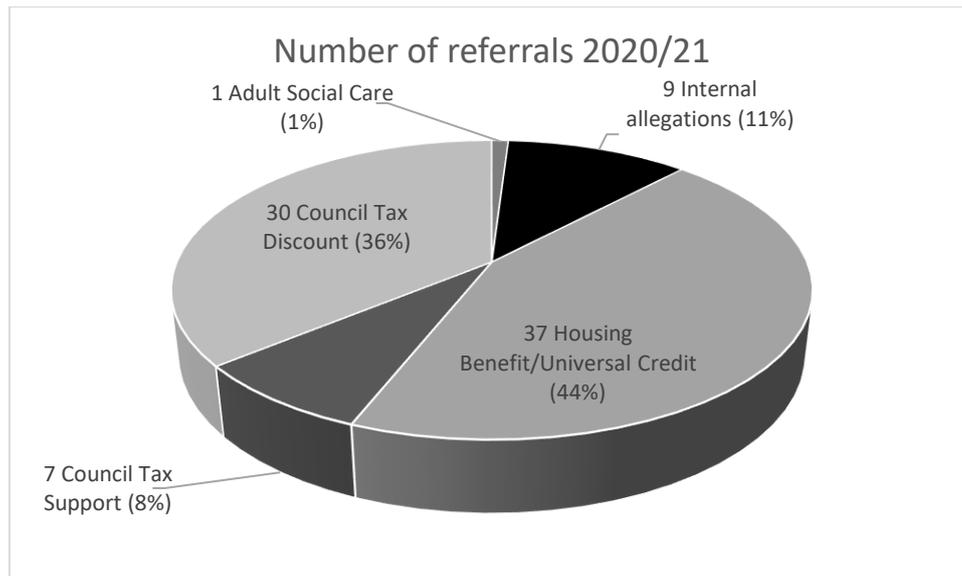
14 referrals were identified as requiring no further action, mainly as a result of there being no offence, or no benefits/discounts in payment.

A further 37 have been sent to the Department for Work and Pensions (DWP) to consider investigation for Housing Benefit or Universal Credit offences.

The number of allegations received in 2020/21 has reduced on previous years. It is likely that this is attributable to the pandemic. Internally, our employees have been stretched delivering additional support throughout the pandemic. From the public's perspective, ensuring their health and wellbeing is likely to have been the main priority. The fraud awareness videos that we will develop will help re-address this.

The pandemic has also impacted on the fraud team's ability to conduct investigations. It has not been possible to conduct face to face interviews and as a result, no interviews under caution have been conducted. However, in response to the restrictions we have developed a secure process for conducting telephone interviews to enable most investigations to continue. Interviews under caution will re-commence when council buildings re-open and it is safe to do so.





From these referrals the following outcomes have been achieved:

21	Number of Council Tax Support investigations completed
£4.5k	Reduction in the amount of Council Tax Support
£12.5k	Amount of Council Tax Support identified as recoverable
57	Number of Council Tax discount investigations completed
£11.5k	Increase in amount of Council Tax available for collection

Council Tax single residency review

This ongoing review commenced mid-March 2021 will enable quick identification of households that potentially have more than one adult in occupancy, through the matching of credit reference agency data to council tax data.

This can lead to the household no longer being entitled to single person discount and therefore increases the amount of Council Tax available for collection and thus available for use on council priorities. It is anticipated that the review will provide an additional £100k of Council Tax for collection. It will also support our response to the NFI single residency discount data match.

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.

41	Number of DWP requests for information
354	Number of Police requests for information
95	Number of 'other' enforcement agency enquiries

Pursue- Being stronger in punishing fraud and recovering losses

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. The council will pursue recovery of any incorrectly paid/fraudulent claims.

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.

However, at present we are unable to conduct interviews under caution due to restrictions in place on 3rd party access to council premises. This will impact on our ability to prosecute appropriate cases at present.

Future developments

We will review our Fraud response Plan to ensure that it continues to reflect best practice and is compatible with other council policies and procedures, such as the Raising a Concern (whistleblowing) policy.

We will develop a new method of raising fraud within services awareness (including the use of short videos) to take account of the change in working arrangements that have been implemented as a result of the pandemic.

The Council Tax single residency review will be developed into a monthly rolling review, ensuring discounts that are no longer appropriate are removed quickly enabling the council to maximise the amount of Council Tax it can collect.

The Bribery and Anti-Money Laundering policies will be reviewed and revised as necessary to ensure the council continues to meet its obligations in respect of preventing bribery and reporting suspicious financial activity.

A draft plan for proactive fraud work to be completed in 2021/22 is also in the process of being developed. 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.