

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

Counter Fraud Plan progress

- 2.1 Counter fraud work is an important feature in the audit plan. Resources have been identified for preventative work and a contingency for responsive work such as investigations. During 2015/2016 the emphasis remains high on counter fraud work in response to CIPFA and former Audit Commission guidance and the increased risk of fraud across the public sector as a result of the economic conditions. A summary of the work is provided in appendix A.

Proactive work

- 2.2 The Cabinet Office (previously the Audit Commission) National Fraud Initiative (NFI) is an annual exercise with different data sets being submitted in a two year cycle. In year 1, data is submitted for benefits, payroll, creditors and licences. In year 2, council tax discounts and electoral roll data is submitted. Matches are received in the following January for investigation. The 2012/14 year 1 exercise on matches received January 2013 is nearing completion and of the 57 reports containing 7,079 matches, all internal audit matches (5,368) have been investigated and closed generating savings of £4k. The remaining benefits and council tax matches are still being investigated and have so far generated savings of £94k.

2.3 In February 2014 the year 2 council tax data and electoral roll data was submitted. As the service now operates in real-time mode the matches were received the same day. Revised data was received in May and two reports containing 1,071 matches were received, further matches were received in September taking the total to 2,242. To date 1,413 cases have been closed and £29.6k savings recorded.

2.4 In March 2014 we took up the NFI offer of two free pilot exercises to match student loans to benefits and personal budgets to deceased registers. Matches were received where students and an asylum seeker appear to be incorrectly claiming benefits (58 cases) all but one of the cases are concluded and £16,264 savings have been recorded. No matches were received on personal budgets.

2.5 In January 2015 the 2014-16 exercise matches were received, some 66 reports containing 4,720 matches. To date 2,947 matches have been addressed resulting in benefits savings of £5,512 and duplicate invoices of £9,946.

Reactive work

2.6 The following table shows the number of referrals received via the whistleblowers' hotline over the last few years.

Year	Referrals received
2010/11	187
2011/12	295
2012/13	297
2013/14	363
2014/15	359
2015/16 (Apr-May)	59

All referrals are either investigated by Internal Audit or information is passed on to the Benefits Fraud Team for investigation. Over £62k Council Tax or Housing Benefits overpayments were referred through the whistleblowers' hotline during 2014/15 and a further £27.4k were identified during April and May 2015.

2.7 The number of other/internal investigations fell during 2014/15 (30 cases) compared to 2013/14 (35 cases). Some cases were led by HR or the service concerned and further analysis is provided in the Internal Audit Annual Report. Five new cases have been reported so far in April and May this year. Investigations are ongoing and mainly concern cash/income/invoicing anomalies, flexi/timesheet discrepancies, failure to safeguard assets and inappropriate use of internet and mobile phone during working hours.

2.8 The national annual fraud survey (now led by CIPFA) has been completed and submitted by the June deadline. Summary results will be collated and reported in the autumn. Details of the survey's results will be reported to the Committee when published.

Benefit Fraud Investigation Team

- 2.9 The team received 749 allegations during 2014/15 (approximately one third from the public via the hotline). The final outturn for the last financial year was 30 successful prosecutions (two at court), eight Administrative Penalties, one Council Tax Reduction Scheme Penalty and 25 Formal Cautions. This performance compares very favourably with neighbouring authorities. The team also identified £710k of overpaid benefit. Since April the team have delivered 2 prosecutions, 4 Administrative Penalties, 3 Cautions and 1 Council Tax Reduction Scheme Penalty. There are 5 cases currently in court of which 2 are listed for trial. A total of £181k in overpaid benefit has also been identified.
- 2.10 One successful prosecution involve three members of the same family who made false claims to North Lincolnshire Council, the DWP and North East Lincolnshire Council. We worked closely with the DWP to investigate all the offences. The total fraud against the three organisations amounts to £43k and involves undeclared property and false tenancies. In July 2014 they all pleaded guilty and were sentenced to 4 months imprisonment suspended for 12 months at Grimsby Crown Court. The case was reported in the Grimsby Telegraph at the time.
- 2.11 A joint investigation with DWP unearthed undeclared income resulting in overpayments of over £39k. The DWP's Financial Investigation Unit (FIU) was also contacted with a view to undertaking confiscation proceedings in accordance with the Proceeds of Crime Act. Relevant accounts were 'frozen.' In February this year the claimant was sentenced to 8 months imprisonment suspended for 24 months with a 6 month curfew. The FIU confiscation proceedings are still ongoing and a successful outcome is anticipated. The defendant is not contesting the confiscation proceedings and full repayment to the council is expected shortly. He will also have to pay additional costs and penalties although they will be retained by the DWP.

Single Fraud Investigation Service (SFIS)

- 2.12 The responsibility for investigating all benefit fraud including housing benefit is transferring to the DWP. Over a period of 18 months all Local Authorities are transferring their benefit investigation work to DWP and the staff who undertake the investigations are also in scope to transfer.
- 2.13 North Lincolnshire Council's transfer date is 01 November 2015 and after that date it will not be able to investigate or prosecute benefit fraud offences. It is likely therefore that some or all of the investigation officers will transfer to DWP on that date.
- 2.14 The council will need to retain some investigation staff in order to conduct Council Tax Reduction Scheme investigations amongst others. We are also currently looking at potential Single Person Discount offences to establish if that is an area that the team can target. It is

proposed that the retained fraud function will be a shared service with North East Lincolnshire Council and a report will go to the Cabinet Member shortly once the future staffing requirements have been agreed. The council's HR team has already met with DWP to start the staff transfer process and a meeting has been arranged to start the process for migrating the benefit fraud cases.

CIPFA Code of Practice Managing the Risk of Fraud and Corruption

- 2.15 In January Members were informed about CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption to support good practice in public sector governance. The code outlines measures for an effective fraud response, including the importance of leadership, governance and operational arrangements.
- 2.16 CIPFA subsequently issued guidance notes to support the implementation of the Code. It contains good practice guidance that will assist councils to improve the effectiveness of their counter fraud arrangements. We believe that these are already embedded within the counter fraud work undertaken at North Lincolnshire. However, a more detailed self-assessment against the counter fraud plan will be undertaken to confirm this.

Fighting Fraud in North Lincolnshire

- 2.17 In April training on counter fraud arrangements was offered to Members as part of the Elected Member Training Programme. The presentation covered corporate counter fraud arrangements and the work of the Benefit Fraud Team.

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 2015/16. 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.

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Background Papers used in the preparation of this report: None

Internal Audit Plan 2015/16 Counter Fraud Summary

Area	Scope	Planned Days	Progress
Creating and maintaining the anti fraud culture			
Counter Fraud Strategy/risk assessments	Keeping the strategy current, and ensuring risk assessments are up to date	5	The revised Strategy was approved at the January Audit Committee meeting. Staff awareness and training has been postponed until the counter fraud approach has been determined after transfer of some resource to the Single Fraud Investigation Service in October 2015.
Publicity	Continued development of system, promotional and awareness raising activities, refresh to risk assessments, and strategy	5	As above.
Money Laundering	Provision of the system set up client identification checks with services	5	The councils approach was reviewed in 2014/15 and amendments made to the counter fraud strategy and cashiers procedures. Targeted eLearning training for those staff in high risk areas will be developed once the counter fraud structure has been determined
Prevention			
Designing out fraud	Advice in areas where changes to systems are proposed	20	In 2015/16 systems for home choice lincs and Highways stores will be reviewed.
Deterrence			
Fraud Newsletter and Council Wide Communications	Publication of a quarterly newsletter and issue of alerts and council wide communications	5	The newsletter is now a regular item with articles covering current national and local counter fraud topics. Other departments across the council such as Benefits, Trading Standards and Insurance have provided articles. The police also provide updates as appropriate.
Detection			
Data Matching – National Fraud Initiative (NFI) and Data Hub	Audit assistance in the annual exercise of data matching.	40	The 2012/14 exercise is now completed, resulting in fraud/savings of £98k to date. Council tax/electoral roll matches were received in February and updated in May - work is ongoing to address these to date approximately £30k has been identified to date. We provided data for the real time service pilot exercises on benefits to student loans and personal budgets to deceased lists, investigations are taking place on matches received, approximately £16k has been identified to date. Data was submitted in October for the 2014/16 exercise matches were received in January investigations have identified approximately £16k to date. To date no data has been provided for the Hub. Time has been set aside to use IDEA to identify potential fraud areas.
Hotline	Audit response to allegations received via the hotline	40	There has been an increase in calls/emails since 2013/14 with an average of 60 per month being received. The hotline is continually publicised via the Fraud Focus newsletter and on the council website.
Investigation			
Proactive – misuse of council funds audits	Rolling programme of audits of potential misuse of council funds.	10	Areas included in the 2015/16 Audit plan include Highways flexi and timesheets.
Proactive – investigation of income collection areas	Income based audits	30	Areas for audits this year include, Leisure Facilities Income, NL local business network and TLMS debtors.
Reactive Investigations		As required	

