

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. 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. This update (attached in appendix 1) 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 regular reports on proactive and reactive fraud work will provide sufficient assurance on the adequacy of counter fraud arrangements during 2020/21. 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. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Regular reviews of counter fraud arrangements should minimise the risk of fraudulent attacks on Council finances and services.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (if required)

7.1 There is no impact assessment required for this report

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 There are no conflicts of interests to declare.

9. RECOMMENDATIONS

9.1 That the Audit Committee considers the assurance provided by the progress report on the adequacy of counter fraud arrangements, and:

9.2 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

SAFE WELL PROSPEROUS CONNECTED

Fraud six-month progress report



Introduction

This report highlights the work that has been carried out to minimise and mitigate the risks of fraud 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

The COVID 19 pandemic has 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 governments 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 has been to include a warning 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 the small business support grants scheme. Key to the success of these schemes was the early recognition within this council that they were susceptible to fraud. The Audit & Assurance team have supported the development 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.

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 are in the early stages of creating a series of short online videos, covering the various aspects of fraud. These will be developed over the coming months.

Outside of the pandemic, we have worked with the procurement team (jointly with NELC) to develop a fraud risk assessment and will be facilitating a workshop with them in the near future. This will ensure that the greatest fraud risks are identified, and mitigated, thus protecting the whole procurement cycle.

We will also review the council Anti-Fraud Strategy to take account of the latest 'Fighting Fraud and Corruption Locally' strategy published by CIPFA and also to ensure it reflects the changing fraud risks as a result of the pandemic.

In addition, when planning individual internal audit assignments, the controls relating to the prevention of fraud are subject to risk assessment and if appropriate the effectiveness of their operation will be tested.

Preventing and detecting fraud

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 Council developed a process to enable payments to be made quickly whilst protecting against fraud. Businesses were required to register and to provide evidence to support their eligibility. Initial checks were made against the Business Rates data held to identify eligible businesses and these were then subject to further verification checks using the Government spotlight data matching tool to quickly check whether businesses were still trading. Further evidence was obtained where necessary to ensure the payments were made to the correct businesses.

Information on the latest scams were disseminated quickly to the teams administering the grants, enabling further checks to be made where necessary. The result has been that locally, the scheme has not been defrauded by any of the national company scams that have been prevalent.

Our processes also developed to take account of other emerging frauds, particularly around late notifications of occupancy of properties. These applications were subject to further checking and identified one case (requesting a £10k grant) that was referred to the fraud team to investigate. Subsequent investigation established that the property remained unoccupied and the registration was cancelled.

Below is a breakdown of payments made (as at 20th October) including the number of registrations rejected as a result of the validation processes put in place.

Registrations for business support grants	3449
Number of individual businesses supported	2823
Total paid out to local businesses	£31,710,000
Registrations rejected in total	626

Through the controls developed to manage this process 626 registrations were rejected. It is not suggested that all these registrations were fraudulent. The majority may have been made in error. However, unchecked, a significant number of erroneous and potentially fraudulent registrations may have been paid.

The main reasons for rejection were:

- The business is not liable for business rates within North Lincolnshire
- The business property is beyond the North Lincolnshire boundary
- Account ended prior to 11th March 20 (key date in Government guidance)
- Account started after 11th March 20
- Duplicated registrations for same account reference
- Registrations for same property reference
- Registration did not comply with other Government set criteria
- Registration identified as fraudulent

The Audit team were also invited to act as 'critical friend' in reviewing the controls surrounding stocks and availability of PPE. The review provided assurance that stock controls and security risks were being properly managed to ensure that PPE equipment was available to all who require it at a time when there were well publicised shortages elsewhere.

The Covid pandemic has also had an effect on our ability to conduct day to day investigations. Since March, we have been unable to conduct face to face interviews either formally or informally, visit people's homes or other premises. This has required us to review and adapt our working processes. We have developed a method of telephone interviewing in order to conduct informal interviews and this is enabling us to continue to conduct investigations in a safe manner.

Whilst the Covid pandemic has dominated much of the counter fraud work undertaken (and will continue to do so) and how we conduct that work, we continue to support the National Fraud Initiative (NFI). Datasets are currently being submitted to the Cabinet Office and the next exercise should be with us in January 2021.

We are at an advanced stage in the procurement of data matching software to enable us to begin the rolling review of Council Tax single person discounts. The review will enable us to quickly identify potential households that have more than one adult in them that may no longer be entitled to a single residency discount. This will enable us to increase the amount of Council tax available for collection.

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.

As part of its audit plan, Internal Audit is carrying out some specific proactive fraud work reviewing the controls in place for specific areas of risk, and where appropriate, carrying out substantive testing to establish the effectiveness of the controls and identify any unusual transactions. Testing is currently ongoing on areas including agency workers and income management processes. Further internal data matching processes are also being carried out.

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.

All appropriate cases are considered for prosecution in line with the Council's policy on prosecution, taking into consideration both the evidential and public interest tests in the Code for Crown Prosecutors. 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.

9 completed Council Tax Support investigations have identified excess awards of £6,995.39 in the period up to 20th October.

28 completed Council Tax discount investigations have identified increases in liability totalling £1,089 with a further £2,476 in backdated liability available for collection.