

## **Audit and Governance Committee**

<b>DATE</b>	9/11/2023
<b>REPORT OF</b>	Executive Director Place and Resources
<b>SUBJECT</b>	Half yearly fraud update 2023/24
<b>STATUS</b>	Open

### **CONTRIBUTION TO OUR AIM**

Effective anti-fraud and corruption arrangements support the delivery of the Council's strategic objectives by contributing to effective governance arrangements designed to underpin them.

### **EXECUTIVE SUMMARY**

This report highlights the work that has been undertaken for the prevention and detection of fraud, corruption and financial misconduct within North East Lincolnshire Council.

### **RECOMMENDATIONS**

Members are asked to consider the content of this report as part of their responsibilities for monitoring and reviewing the Council's arrangements in relation to fraud and corruption.

Members are also asked to consider whether a member with lead responsibility for fraud should be appointed to receive a regular report that includes information, progress and barriers on the assessment against the FFCL checklist, fraud risk assessment and horizon scanning.

To consider whether the production of an annual fraud plan would provide additional assurance on the council's fraud arrangements, or whether the current arrangements are satisfactory.

### **REASONS FOR DECISION**

The Committee's responsibilities include monitoring the effectiveness of the Council's arrangements for managing the risk of fraud. By summarising the anti-fraud and corruption activity carried out so far in 2023/24, this update helps the Committee discharge these responsibilities.

### **1. BACKGROUND AND ISSUES**

1.1. The council's framework to combat fraud, corruption and misappropriation was approved by Audit and Governance Committee in December 2020. The framework follows national guidance as laid out in the document 'Fighting Fraud and Corruption Locally (FFCL) -a strategy for the 2020's', and is based upon the key principles of:

- Govern
- Acknowledge and understand
- Prevent and detect

- Pursue
- Protect

1.2. This update highlights the work carried out in each of these areas and demonstrates the Council's continuing commitment to minimise the risk of fraud.

## **Govern**

1.3. The council has a robust framework of procedures and controls to minimise the risk of losses due to fraud. Our anti-fraud and corruption strategy makes it absolutely clear that fraud and corruption will not be tolerated. The strategy is currently under review and an updated version will be brought to this committee for consideration and approval.

1.4. Our supporting policies and procedures are also reviewed on a regular basis to ensure they continue to provide clear guidance to protect the council from fraud and corruption. The Fraud Response Plan is also being reviewed and a revised version will be published shortly, ensuring that there is a clear pathway for reporting concerns and process for dealing with those concerns.

1.5. To provide assurance that our fraud response is appropriate and meets the needs of the council, we invited Lincolnshire County Council to provide an independent 'peer review' of our arrangements against the checklist in the FFCL strategy. The review is now complete and provided satisfactory assurance on the effectiveness of the control environment in relation to fraud. In coming to this conclusion, the review also made a number of findings that we will work through to improve our fraud response.

1.6. The review identified two areas for consideration by this Committee. The FFCL strategy checklist recommends that there is a member of the Cabinet with lead responsibility for fraud to receive a regular report that includes information, progress and barriers on the assessment against the FFCL checklist, fraud risk assessment and horizon scanning.

1.7. The second area for consideration is whether the Committee feels that the production of an annual fraud plan approved by the Committee is necessary to provide additional assurance on our fraud arrangements, or whether the current arrangements are satisfactory.

## **Acknowledging and understanding fraud risks**

1.8. There is no doubt that the past few years have seen changes on a massive scale. COVID has transformed the way we work as council, with home and hybrid working now the norm. The rise in the cost of living and conflict in Ukraine are also placing strains on finances both public and personal.

- 1.9. At the same time, it is reported that fraud is now the most prevalent crime<sup>1</sup> and latest estimates of fraud losses within Local Government have increased from £7.8bn in 2017 to £8.8bn in 2023<sup>2</sup>. It is clear that fraud is and will remain a significant risk.
- 1.10. We cannot afford to lose money to fraud. We all have a responsibility to understand what fraud looks like, what to do when we suspect it and how to report it. Advice and guidance is available on the council wiki pages and the fraud awareness e-learning module that was specifically developed to raise awareness of fraud became mandatory for all employees and elected members in March 2023.
- 1.11. As of the 10<sup>th</sup> October, over 1200 employees (75%) and 38 elected members (88%) have completed the e-learning. For those who have not yet taken up the opportunity, they will be reminded to complete the course as soon as possible.
- 1.12. Further e-learning modules covering Mandate fraud and Bribery and Corruption are also available on the LearnNEL platform. The more employees understand what fraud is, how their service might be targeted by fraudsters and how to respond to instances of fraud, the harder we make it for fraudsters to steal public money.
- 1.13. But, having the tools to prevent fraud is only effective if those tools are used and understood. Therefore, we have undertaken a short staff survey, not only to assess the level of knowledge and understanding of fraud but also to assess our employees' confidence in using those tools (such as the reporting a concern (whistleblowing) policy).
- 1.14. The last staff survey in relation to fraud awareness was conducted in 2018/2019. During a four month period in 2023, a refreshed survey was made available to employees to complete. A variety of methods were used to promote the completion of the survey, including e-mail, the intranet and the VISION magazine. At the end of the survey period in August 2023, 159 responses had been received. Some of the key findings are shown as follows:

<b>83%</b>	of respondents are aware of the fraud awareness modules
<b>92%</b>	of respondents agreed that the council had made clear its commitment to fight fraud and corruption (79% in 2019)
<b>98%</b>	of respondents are aware of their personal responsibilities and conduct in respect of fighting fraud and corruption (88% in 2019)

<sup>1</sup> [Crime in England and Wales: year ending March 2023](#)

<sup>2</sup> Annual Fraud Indicator 2023

<b>78%</b>	of respondents are aware of the councils fraud and corruption strategy (42% in 2019)
<b>89%</b>	of respondents understood their responsibilities under the Bribery Act (70% in 2019)
<b>96%</b>	of respondents are aware of the register of gifts and hospitality and that periodic reminders are issued

1.15. Of the 15 questions asked in the survey, 14 showed improvements on the 2018/19 responses. However, the survey also identified areas where more can be done to raise awareness or confidence further including:

- Improving awareness of internal controls such as segregation of duties and how they are effective in preventing fraud and corruption
- Improving awareness of the arrangements in place to deal with allegations of money laundering
- Promotion of the Council's Reporting a Concern (formerly Whistleblowing) Policy and how to report fraud
- Awareness of how the Council's disciplinary procedures provide an effective deterrent to fraud and corruption; (25% answered 'Don't know' to this question).

1.16. The full survey results can be found in Appendix 1.

1.17. A plan for proactive fraud work is being completed as part of the Internal Audit plan for 2023/24. The focus of the work within this plan will relate to the use of our own data matching systems alongside data matching that has already been produced by the National Fraud Initiative. Audit will also continue its own ongoing review of duplicate payments using data matching.

1.18. 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**

1.19. We continue to undertake monthly reviews of Council Tax single residency discounts. Each month every liability with a single residency discount (SRD) is checked against credit reference agency data to identify households that may have more than one adult resident and enquiries are made with those individuals where the data indicates a change. By identifying changes on a monthly basis, this enables the Council to quickly remove any SRD's that are no longer appropriate, maximising the amount of Council Tax available for collection.

1.20. In 2023/4 to date, we have taken the following action:

<b>Summary</b>	<b>Values</b>
Number of review letters sent	252
Number of reminders sent	67
Number returned	206
Number returned with no change reported	149
Number of changes reported	60

- 1.21. The monetary value of the changes reported is not currently available as we await recalculation of the affected Council Tax liabilities. The results of these monthly reviews will be included in future reports to Audit & Governance Committee.
- 1.22. Final figures for the 2022/23 exercise are now available and show that the review identified and removed 141 SRD's that were no longer appropriate, resulting in an additional £54,652 in Council Tax available for collection.
- 1.23. In addition to the review, a further 13 Council Tax discount investigations have been completed, identifying increases in liability totalling £7,207 with a further £10,943 in backdated liability available for collection.
- 1.24. Regrettably, in September the Council was the subject of a successful mandate fraud relating to invoices amounting to £27k. It appears that the fraudster was able to intercept e-mails between the supplier and council, including invoices sent to the council for payment. They were then able to request a change in bank account number using the supplier e-mail address.
- 1.25. However, this fraud was preventable. There were a number of warning signs that were missed that should have alerted the service to the possibility that the change request was fraudulent, but these were not identified at the time. There was also a failure to follow the established procedures to independently verify a request to change a supplier bank account in this case.
- 1.26. This fraud demonstrates the importance of understanding the risks associated with changes to supplier information and the methods fraudsters use to steal council money. There is a specific mandate fraud awareness e-learning module available to all employees and information on mandate fraud available on the council wiki pages. However, it is clear that there is a requirement to carry out further training to raise awareness of the warning signs in relation to mandate fraud, to ensure further instances are prevented. The following recommendations have been made:

- Refresher training on the process for bank changes is undertaken within the accountancy service desk team, and it made explicit that the independent check must be made prior to any change being actioned;
- All staff who engage with suppliers regarding invoicing to undertake the mandate fraud e-learning course to understand the risks associated with mandate fraud and how to identify it.
- All requests to amend supplier bank account details are forwarded in full (the full e-mail chain) to the accountancy service desk to provide additional scrutiny of the request.
- That sensitive information sent between suppliers and the council use secure e-mail as recommended in the ICT & Information Security policy.

1.27. 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. Work is currently ongoing in relation to expenses, declaration of interests and their links to payments made via the creditor system. An audit of income arrangements relating to the Print Hub is also in the process of commencing. All of this work is currently in progress at the time of writing of this report. An audit of the Gifts and Hospitality system will be completed in late 2023.

### **Pursue – Being stronger in punishing fraud and recovering losses**

- 1.28. All losses identified are pursued in line with the Council's debt recovery strategy.
- 1.29. 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.

### **Protect**

- 1.30. The actions outlined above enable the council to protect itself from fraud and the harm fraud can cause both to the council and to the residents of North East Lincolnshire.

## **2. RISKS AND OPPORTUNITIES**

As stated in its Anti-Fraud and Corruption Strategy, the Council will not tolerate fraud and corruption and will follow up allegations brought to its attention.

Although this report demonstrates that allegations are investigated and pursued, there is an underlying risk that some instances of potential fraud, corruption and misconduct may not be identified and thus brought to the attention of those with the responsibility of investigating allegations.

Effective and co-ordinated anti-fraud arrangements are essential to protect the Council against the loss of resources and reputation, never more so than during

the current pandemic to ensure help and support reaches those in need and entitled to it.

### **3. OTHER OPTIONS CONSIDERED**

No other options were considered. The production of a six-monthly update is considered good practice.

### **4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS**

As well as financial loss caused by fraud, there can also be reputational impacts for those organisations which do not manage the risk of fraud effectively. This update helps mitigate that reputational risk by providing assurance to stakeholders on how the risks are managed.

### **5. FINANCIAL CONSIDERATIONS**

There is no additional expenditure required as a consequence of this update. It summarises the work undertaken to identify fraud and error resulting in increased Council Tax liabilities available for collection and the opportunity to recover monies overpaid.

### **6. CHILDREN AND YOUNG PEOPLE IMPLIATIONS**

There are no specific implications for Children's Services.

### **7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

There are no climate change or environmental implications arising from this report.

### **8. CONSULTATION WITH SCRUTINY**

Not applicable. This report is subject to discussion with Audit & Governance Committee.

### **9. FINANCIAL IMPLICATIONS**

The financial implications of fraud and the measures to mitigate the risk, are highlighted in the update.

### **10. LEGAL IMPLICATIONS**

There are no direct legal implications arising from the report.

### **11. HUMAN RESOURCES IMPLICATIONS**

The Council takes matters in relation to fraud and corruption seriously. Any allegations involving employees are dealt with through the council discipline procedure and where cases are proven appropriate sanctions issued which may include dismissal.

### **12. WARD IMPLICATIONS**

No specific ward implications.

### **13. BACKGROUND PAPERS**

Anti-fraud and corruption strategy (December 2020).  
Annual fraud report 2022/23

### **14. CONTACT OFFICER(S)**

Peter Hanmer, Head of Audit and Assurance x3799

Mark Edwards, Strategic Lead Fraud x3916

**Sharon Wroot**  
**Executive Director – Place and Resources**

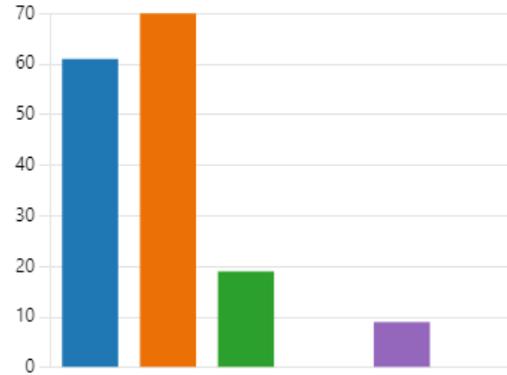
## Appendix 1 – 2023 staff survey results

1. I am aware of the fraud e-learning modules that were released at the end of 2022.

[More Details](#)

[Insights](#)

Strongly Agree	61
Agree	70
Disagree	19
Strongly Disagree	0
Don't Know	9
Not Applicable	0



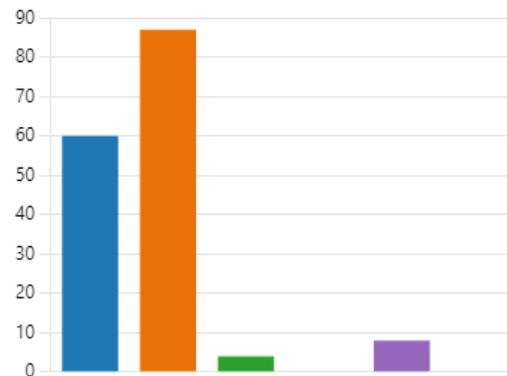
82.4% agree or above (new question)

2. The Council has made clear its commitment to fight fraud and corruption.

[More Details](#)

[Insights](#)

Strongly Agree	60
Agree	87
Disagree	4
Strongly Disagree	0
Don't Know	8
Not Applicable	0



92.4% agree or above

2019 survey

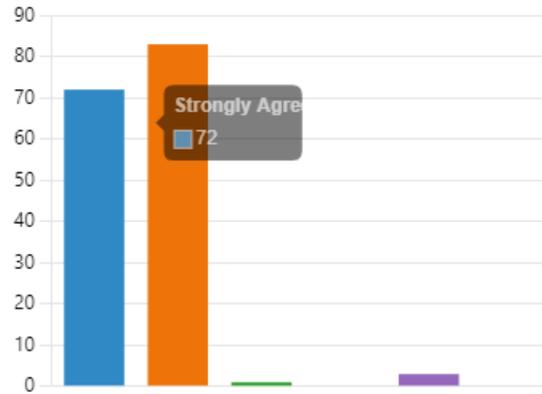
79.1% agreed or above↑

3. I am aware of my personal responsibilities and conduct in respect of fighting fraud and corruption.

[More Details](#)

[Insights](#)

Strongly Agree	72
Agree	83
Disagree	1
Strongly Disagree	0
Don't Know	3
Not Applicable	0



97.5% agree or above

2019 survey

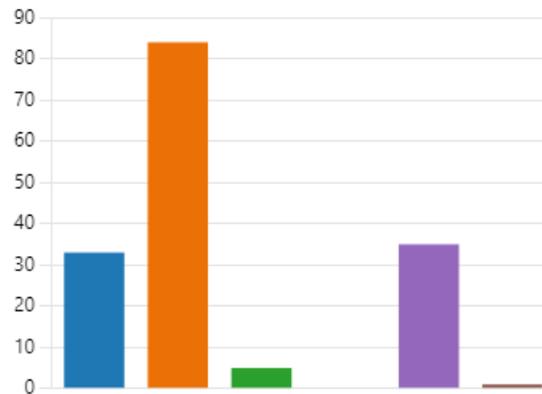
88.35% agree or above ↑

4. I believe that internal controls - including proper segregation of duties exist.

[More Details](#)

[Insights](#)

Strongly Agree	33
Agree	84
Disagree	5
Strongly Disagree	0
Don't Know	35
Not Applicable	1



73.6% agree or above, 22% don't know

2019 survey

63.82% agree or above ↑

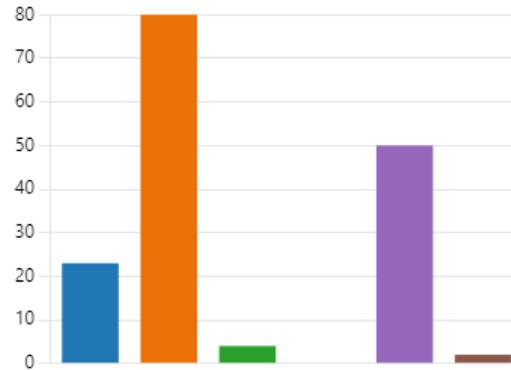
29.78% neither agree or disagree ↑

5. I believe that these internal controls work effectively.

[More Details](#)

[Insights](#)

Strongly Agree	23
Agree	80
Disagree	4
Strongly Disagree	0
Don't Know	50
Not Applicable	2



64.7% agree or above, 31.4% don't know

2019 survey

53.80% agreed or above ↑

39.67% neither agreed or disagreed ↑

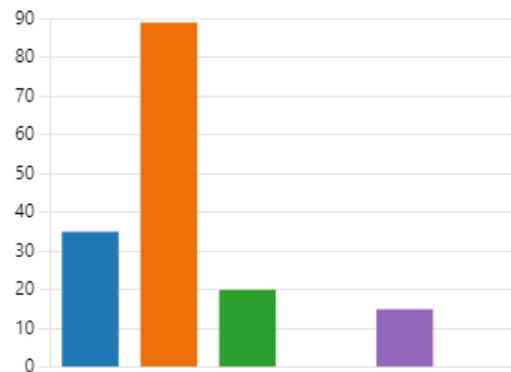
NB – 2019 question was “I believe that these internal controls to fight fraud and corruption work effectively.”

6. I am aware of the Council's anti-fraud and corruption strategy.

[More Details](#)

[Insights](#)

Strongly Agree	35
Agree	89
Disagree	20
Strongly Disagree	0
Don't Know	15
Not Applicable	0



78% agree or above, 12.6% disagree

2019 survey

42% agreed or above ↑

26.06% neither agreed or disagreed ↑

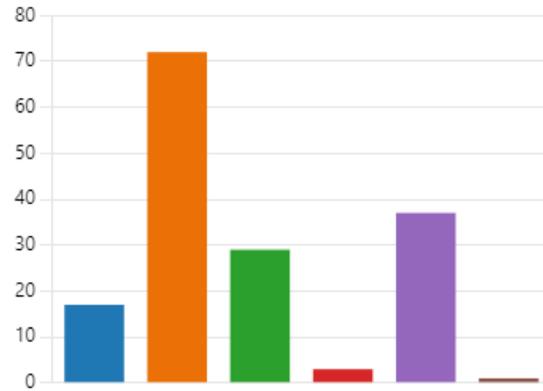
26.06% disagreed ↑

7. I am aware of the arrangements the Council has in place to deal with allegations of Money Laundering.

[More Details](#)

[Insights](#)

Strongly Agree	17
Agree	72
Disagree	29
Strongly Disagree	3
Don't Know	37
Not Applicable	1



56% agree or above  
18.2% disagree  
23.3% don't know

2019 survey

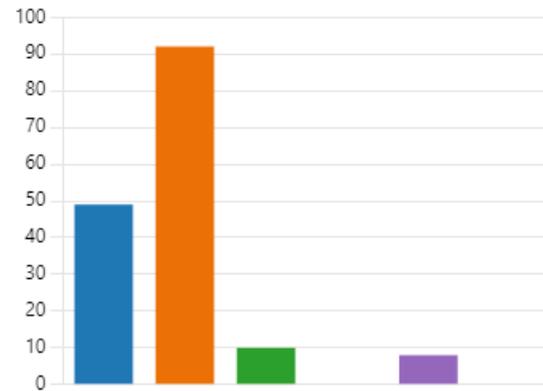
37.5% agreed or above ↑  
29.3% neither agreed or disagreed ↑  
28.8% disagreed ↑

8. I am aware of my personal responsibilities under the Bribery Act 2010.

[More Details](#)

[Insights](#)

Strongly Agree	49
Agree	92
Disagree	10
Strongly Disagree	0
Don't Know	8
Not Applicable	0



88.7% agree or above

2019 survey

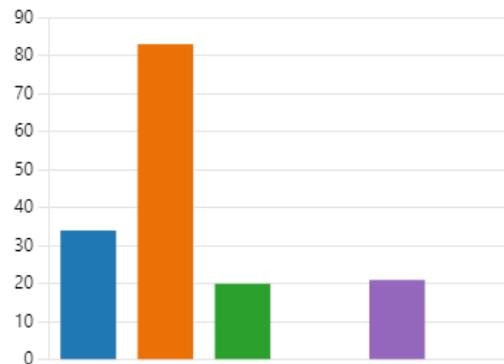
69.6% agreed or above ↑

9. I am aware of the Council's Reporting a Concern Policy and how to report a suspected instance of maladministration.

[More Details](#)

[Insights](#)

Strongly Agree	34
Agree	83
Disagree	20
Strongly Disagree	0
Don't Know	21
Not Applicable	0



73.6% agree or above  
12.6% disagree  
13.2% don't know

2019 survey

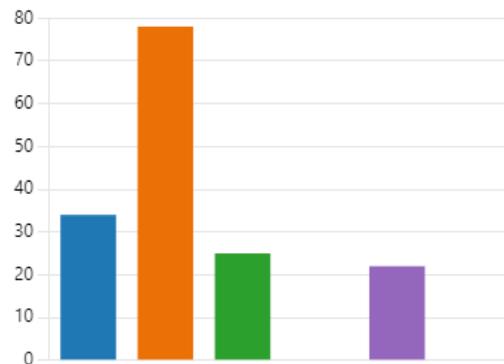
77.5% agreed or above ↓  
14.3% neither agreed or disagreed ↑  
5.3% disagree ↓

10. I would feel confident in reporting and expressing concerns regarding a suspected instance of maladministration under the Council's Reporting a Concern Policy.

[More Details](#)

[Insights](#)

Strongly Agree	34
Agree	78
Disagree	25
Strongly Disagree	0
Don't Know	22
Not Applicable	0



70.4% agree or above  
15.7% disagree  
13.8% don't know

2019 survey

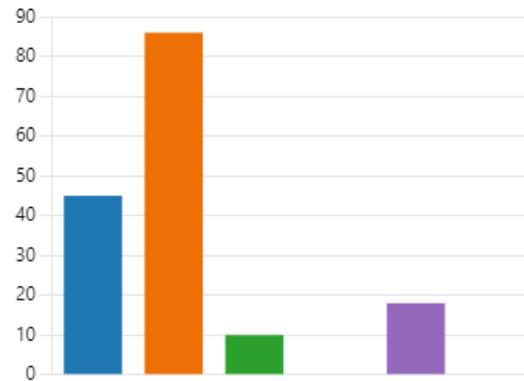
64.7% agree or above ↑  
19.8% neither agree or disagree ↑  
12.3% disagree ↓

11. I believe that my concern would be dealt with in the strictest confidence.

[More Details](#)

[Insights](#)

Strongly Agree	45
Agree	86
Disagree	10
Strongly Disagree	0
Don't Know	18
Not Applicable	0



82.4% agree or above

2019 survey

54.3% agreed or above ↑

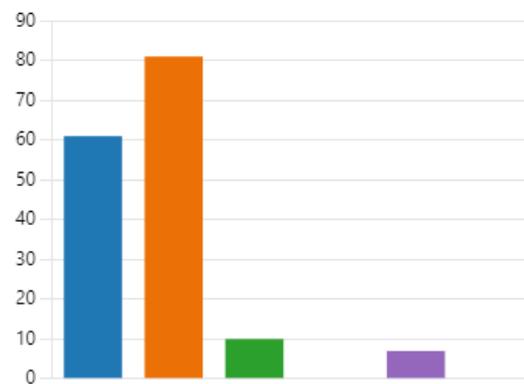
26% neither agreed or disagreed ↑

12. I am aware of the circumstances in which I would need to make a declaration of interest and I am reminded periodically of the need to record such interests.

[More Details](#)

[Insights](#)

Strongly Agree	61
Agree	81
Disagree	10
Strongly Disagree	0
Don't Know	7
Not Applicable	0



89.3% agree or above

NB – in 2019 this was asked as two separate questions

'I am aware when I would need to declare an interest'

80.8% agreed or above ↑

'Periodic Reminders'

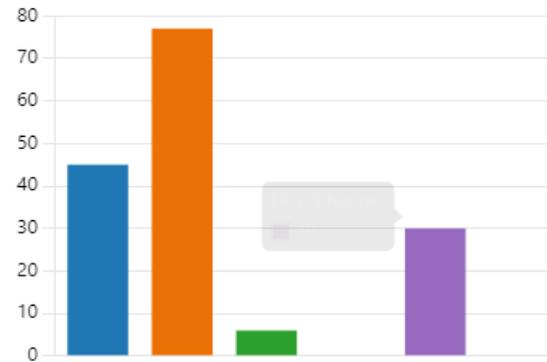
69.6% agreed or above ↑

13. A register is kept to record any interests which may impair the impartiality of Council staff.

[More Details](#)

[Insights](#)

Strongly Agree	45
Agree	77
Disagree	6
Strongly Disagree	0
Don't Know	30
Not Applicable	0



76.7% agree or above  
18.9% don't know

2019 survey

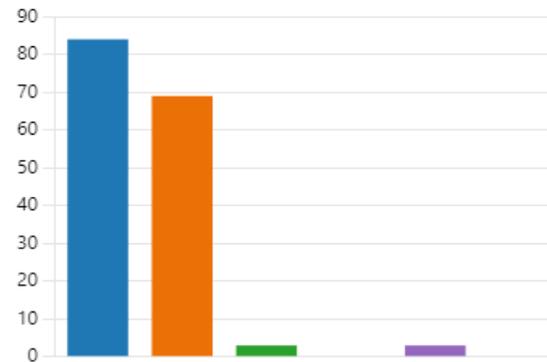
81.3% agreed or above ↓

14. A register is kept to record the receipt and offering of hospitality and gifts and I am reminded periodically of the need to record such hospitality and gifts.

[More Details](#)

[Insights](#)

Strongly Agree	84
Agree	69
Disagree	3
Strongly Disagree	0
Don't Know	3
Not Applicable	0



96.2% agree or above

NB – in 2019 this was asked as two separate questions

'Awareness of register of gifts and hospitality'

96.2% agreed or above ⇔

'Periodic Reminder'

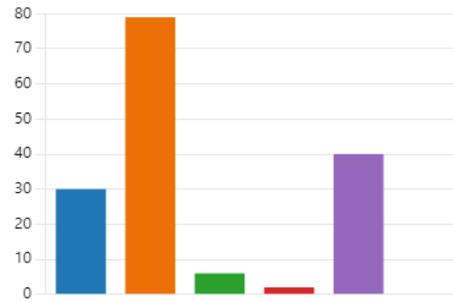
81.3% agreed or above ↑

15. The Council's disciplinary procedures provide an effective deterrent to fraud and corruption.

[More Details](#)

[Insights](#)

Strongly Agree	30
Agree	79
Disagree	6
Strongly Disagree	2
Don't Know	40
Not Applicable	0



68.6% agree or above  
25.1% don't know

2019 survey

66.1% agreed or above ↑  
22.6% neither agreed or disagreed ↑