

## **Audit and Governance Committee**

|                  |  |
|------------------|--|
| <b>DATE</b>      | 18/04/24                                 |
| <b>REPORT OF</b> | Executive Director – Place and Resources |
| <b>SUBJECT</b>   | Annual Fraud Report 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 and to endorse its further distribution both internally and externally.

### **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 in 2023/24, this report helps the Committee discharge these responsibilities.

## **1. BACKGROUND AND ISSUES**

The council's framework to combat fraud, corruption and misappropriation was approved by Audit and Governance Committee in November 2023. The framework follows national guidance as laid out in the document 'Fighting Fraud and Corruption Locally -a strategy for the 2020's', and is based upon the key principles of:

- Govern
- Acknowledge and understand
- Prevent and detect
- Pursue
- Protect

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.

## **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 cost of living crisis to ensure help and support reaches those in need and entitled to it.

## **3. OTHER OPTIONS CONSIDERED**

No other options were considered, as the production of an Annual Fraud Report is considered to be notable practice as laid out by CIPFA and the requirement for the Audit & Governance Committee to consider an Annual Fraud Report is a part of its Terms of Reference.

## **4. REPUTATIONAL 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. The production of an annual report helps mitigate its reputational risk by providing assurance to stakeholders on how the risks are managed.

Moreover, by widely communicating the report both internally and externally it potentially provides a deterrent to fraudsters by highlighting the Council's commitment to identify fraud and take proactive action to pursue fraudsters.

## **5. FINANCIAL CONSIDERATIONS**

There is no additional expenditure required as a consequence of this report. The report demonstrates the Council's approach to minimising the risk of financial loss due to fraud. 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 IMPLICATIONS**

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 accompanying report.

## **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 very 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 (November 2023).

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

Peter Hanmer, Head of Audit and Assurance x3799

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



# **North East Lincolnshire Council**

## **Annual Fraud Report**

**2023/24**

## Introduction

The North East 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.

Our approach to delivering the strategy is led by the Audit & Assurance team, in which the Counter Fraud and Audit functions work collaboratively to deliver the response.

This report highlights the work which has been carried out across the council during 2023/24 under the key principles of:

- Govern
- Acknowledge and understand
- Prevent and detect
- Pursue
- Protect

## Govern

The council has a robust framework of procedures and controls to minimise the risk of losses due to fraud.

The council's anti-fraud and corruption strategy is strongly influenced by 'Fighting fraud and corruption locally (FFCL)- the local government counter fraud and corruption strategy 2020' and provides the basis for our anti-fraud activities. The strategy makes it absolutely clear that fraud and corruption will not be tolerated and has the endorsement of the Chief Executive and Leader of the Council.

As part of the continuous review of our fraud related policies and procedures, both the anti-fraud and corruption strategy and fraud response plan were reviewed in November 2023 and approved at the Audit Committee meeting on 9th November 2023. The review and approval of these documents re-affirms our commitment to fighting fraud, makes it clear the cost of failing to tackle fraud and provides a clear pathway for reporting concerns and process for dealing with those concerns.

To provide independent assurance that our fraud response is appropriate and meets the needs of the council, Lincolnshire County Council we invited to conduct a 'peer review' of our arrangements against the checklist in the FFCL strategy. This provided satisfactory assurance on the effectiveness of the control environment in relation to fraud. In coming to this conclusion, the review made a number of recommendations that we have considered to improve our fraud response, including carrying out an updated fraud risk assessment.

The fraud risk assessment will initially take the form of a self assessment questionnaire for services to complete. The methodology for selecting services for assessment is currently being reviewed to ensure that all major areas of fraud risk are captured.

## Acknowledge and understand

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.

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<sup>2</sup> in 2017 to £8.8bn in 2023. It is clear that fraud is and will remain a significant risk.

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 a suite of fraud awareness e-learning modules, specifically developed to raise awareness of fraud are also available on the AcademyNEL 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.

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).

Our 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 the weekly corporate communication to staff and through senior leadership team. 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) |
| <b>78%</b> | of respondents are aware of the councils fraud and corruption strategy (42% in 2019)  |

---

<sup>1</sup> Crime in England and Wales: year ending March 2023

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

|            |  |
|------------|--|
| <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 |

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).

We continue to identify and monitor risk through alerts issued by law enforcement agencies and the National Anti-Fraud Network (NAFN). These risks are disseminated to the relevant services including local taxation & benefits, electoral services, blue badge administration and finance teams as appropriate. The value of receiving such alerts is clear and is another line in our defence against fraudulent activity.

## Preventing and detecting fraud

Although the detection and recovery of fraudulently obtained finances 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.

To emphasise this point, 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.

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.

Fortunately, we have been able to recover the fraudulently obtained money. But 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 specific mandate fraud awareness e-learning available to all employees and information on mandate fraud available on the council wiki pages.

As a result of this fraud, further actions have been taken improve the process and to raise awareness of the warning signs in relation to mandate fraud. These include:

- Refresher training on the process for bank changes has been undertaken within the accountancy service desk team, and it made explicit that the independent check must be made prior to any change being actioned;
- A presentation to Assistant Directors requesting that all staff who engage with suppliers regarding invoicing 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 will now include the full e-mail chain being sent to the accountancy service desk to provide additional scrutiny of the request.
- A reminder that sensitive information sent between suppliers and the council should use secure e-mail as recommended in the ICT & Information Security policy.

The protection of assets is one of the five key items 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 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 2023/24, proactive work has also been completed in relation to print income and mandate fraud. From the sample tested to date, no issues relating to fraud have been identified.

#### [Council Tax single residency review](#)

Council Tax single residency discounts (SRDs) are a significant area of risk to fraud and error.

The council has approximately 75,000 Council Tax payers, of which about 28,000 receive a SRD entitling them to a 25% reduction in their Council Tax bill. Evidence suggests that without intervention, the number of SRD's increases due to the failure of a small number of Council Tax payers to report when they are no longer entitled to the discount. This in turn reduces the income available to collect and use on council priorities.

Having implemented the monthly review of SRD entitlements in 2021/22 this work has been ongoing throughout the year. We continue to monitor every council tax liability that receives a SRD on a monthly basis, in order to quickly amend liabilities, thus ensuring that the maximum amount of Council Tax is available for collection. Figures for the first two full years' exercises show that over 500 discounts were removed as a result of the review, increasing the amount of Council Tax available for collection by over £300k.

| <b>Summary</b>                       | <b>Values</b> |
|--------------------------------------|---------------|
| 2021/2022 Number of SRD's removed    | 746           |
| 2021/2022 Value of discounts removed | £262,092      |
| 2022/2023 Number of SRD's removed    | 141           |
| 2022/2023 Value of discounts removed | £54,654       |

For the current year, we have taken the following action as of the 19<sup>th</sup> February 2024. The full year results will be reported in the Counter Fraud half yearly report later in the year:

|             |  |
|-------------|--|
| <b>338</b>  | Review letters sent                                  |
| <b>90</b>   | Reminder letters sent                                |
| <b>205</b>  | Responses received with no change reported           |
| <b>97</b>   | Responses received reporting a change                |
| <b>60</b>   | SRD's removed as a result of a change being reported |
| <b>16</b>   | SRD's removed due to failure to reply                |
| <b>76</b>   | Total number of SRD's removed                        |
| <b>£30k</b> | Annual charge generated                              |
| <b>£3k</b>  | Additional liability for previous years              |

It is worth noting that an additional 63 SRD's have been removed and replaced with student exemption discounts. Whilst this does not increase the amount of Council Tax available for collection, the student exemption is not an indefinite award and will stop once an individual ceases full time education at which point a full charge will be applied.

### 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 council received 4098 matches in 49 separate reports. 2,063 of these matches have been cleared. 17 matches have been referred to DWP to investigate and a further seven are the subject of ongoing investigations by our own investigation team. Of the remaining matches, no further action was taken as it was established that the match posed little or no risk of fraud or incorrectness. For example, a match of duplicate creditors identified by address was deemed to be low risk as the finance system was cleansed as part of the transfer of data to the new finance system.

Although there are outstanding cases under investigation, to date there has been only one error identified as a result of this data matching process. This continues to provide assurance that the quality of the council's data and processes remains high minimising the risk of losses.

### Fraud referrals

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

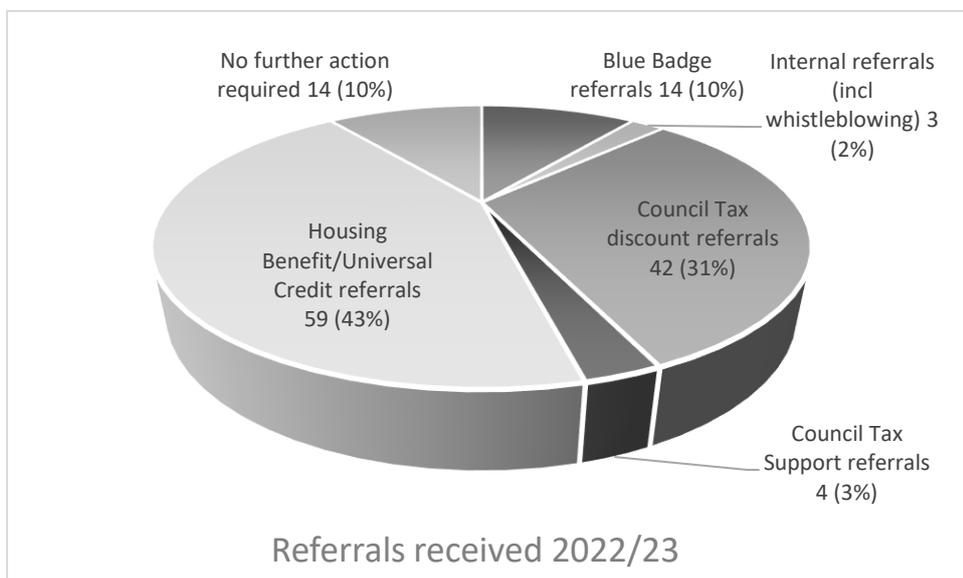
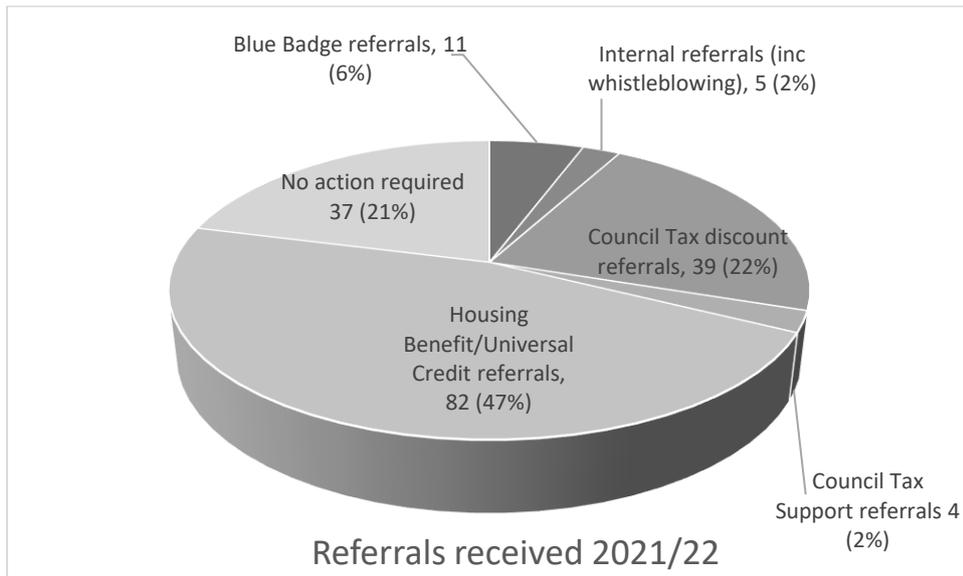
In 2023/24, the number of referrals received relating to allegations of fraud or financial misconduct amounted to 95 (as at 20<sup>th</sup> February 2024). This is a reduction on the number of referrals received in 2022/23. However, due to a member of the team leaving, there are a number of referrals awaiting action that would otherwise be included in this figure. Once the post has been filled, this will increase the number of referrals processed. As a result, this is a temporary reduction and not a cause for concern.

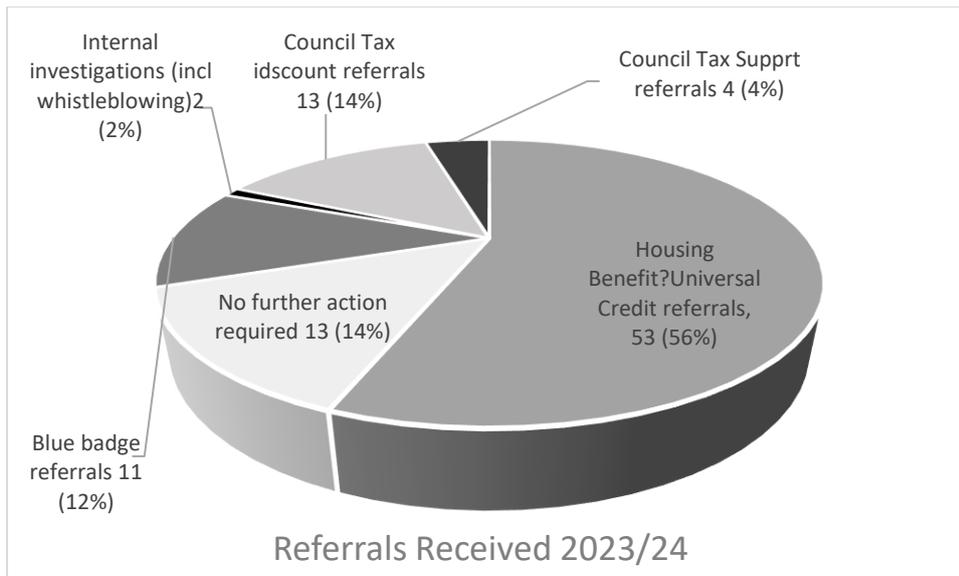
The pattern of referrals shows a steady decline in the number of referrals being sent to DWP to investigate Housing Benefit offences. This is to be expected as the Universal Credit roll out reaches maturity and the number of Housing Benefit recipients reduces as a consequence.

Council Tax discount referrals have reduced significantly during the period, but this can be explained by the current vacant post within the team.

The number of internal reports of fraud and financial misconduct has continued to fall in 2023/24/, with only two referrals being received during the period. We would be

foolish to believe that this is due to there being no fraud. Therefore, we will undertake a piece of work in 2024/25 to establish whether there is any cause for concern in this drop in internal referrals. We will take appropriate action to provide assurance that the referral process is working properly and that all appropriate reports of concern are fully reported.





### Internal investigations

Two internal allegations were reported during 2023/24.

One referred to potential electoral fraud and was referred to the Police for consideration. The second referred to the mandate fraud already highlighted in this report.

### Disabled Persons Blue Badge Scheme

The Blue Badge (Disabled Parking) Scheme provides a national arrangement of parking concessions for those people who have a permanent or substantial disability. The misuse of the Blue Badge scheme undermines the benefits of the scheme, impacts upon local traffic management and creates hostility amongst other badge holders and members of the public. It can result in a genuinely disabled person being unable to access designated parking spaces.

The following action has been taken in relation to misuse of the blue badge scheme:

|    |   |
|----|---|
| 11 | Number of allegations of misuse received for investigation  |
| 11 | Investigations completed                                    |
| 1  | Offences proven but not in the public interest to prosecute |
| 0  | Sanctions applied for misuse                                |
| 0  | Badges withdrawn or refused                                 |
| 8  | Other action taken  |

|    |   |
|----|---|
| 1  | No misuse identified  |
| 22 | Number of parking charge notices issued for misuse          |
| 3  | Number of warning/education letters issued to badge holders |

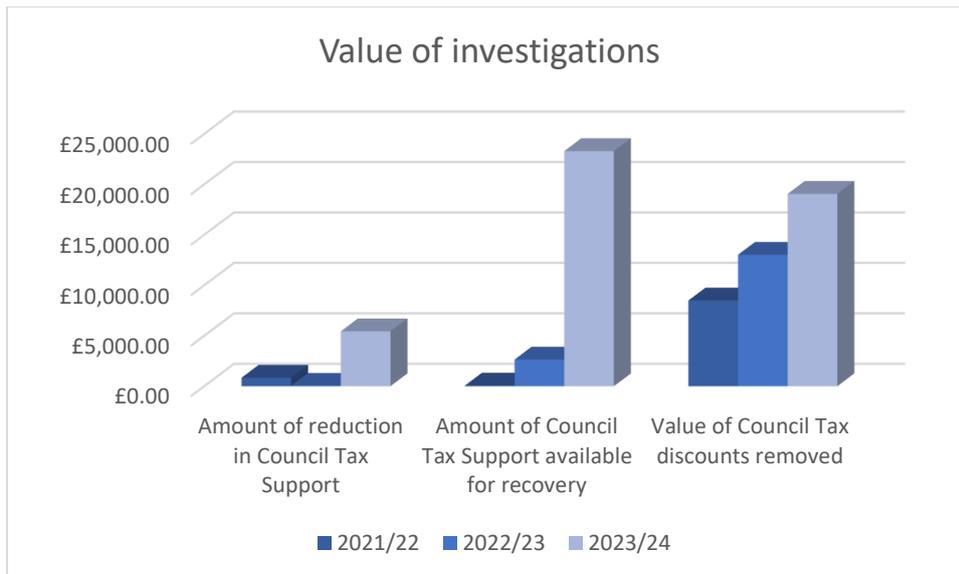
Other action taken, includes referrals to DWP where the badge is issued as the basis of Personal Independence Payment (PIP) or Disability Living Allowance (DLA) being in payment, referrals to our Civil Enforcement Officers (CEO's), issue of a warning or education letter, or investigation by the fraud team where appropriate. Of these, one case is currently listed for prosecution.

Work is ongoing with colleagues in the CEO team to develop a proactive approach to blue badge fraud using intelligence of high-risk areas of abuse. A training event has been held with CEO's specifically on blue badge fraud, to ensure that there is a consistent approach to it. The ultimate aim is to identify potential blue badge abuse hotspots and co-ordinate action to deter/punish those who abuse the system, culminating in participation in a national day of action on blue badge abuse.

### Council Tax investigations

32 reactive investigations have been completed (as at 20<sup>th</sup> February 2024). Whilst the number of investigations completed has reduced, the actual value of the investigations completed has increased on previous years. This demonstrates the value of conducting intelligence led investigations to ensure that any abuse of the Council Tax system is stopped and to identify money that the council can seek to recover. achieving the following outcomes:





The increase in the amount of Council Tax available for collection is in addition to that identified as part of the single residency review.

### Third party requests for information

The investigation team continue to support other enforcement agencies in their efforts to prevent and detect crime and protect the public purse, acting as a 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.

The number of DWP requests for information has fallen in respect of Housing Benefit investigations. This is consistent with the reduced number of Housing Benefit recipients as a result of Universal Credit roll out.

The number of Police requests and those from other agencies have reduced slightly during 2023/24.

|            |  |
|------------|--|
| <b>70</b>  | Number of DWP requests for information         |
| <b>264</b> | Number of Police requests for information      |
| <b>174</b> | Number of 'other' enforcement agency enquiries |

### Pursue

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.

## Protect

The actions outlined above provide a robust response to the risks of fraud occurring, its detection and investigation. They 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.

## Future developments

The fraud risk assessments will be assessed to ensure that services understand and appropriately mitigate fraud risk (including the risk of bribery). We will work with services where appropriate to strengthen their risk assessments to minimise the risks of fraud occurring.

We will focus on the results of the staff survey and take actions to improve the understanding and awareness of our anti-fraud and corruption policies and procedures.

We will continue to develop and produce online fraud awareness packages, including the development of a Money laundering e-learning package.

A draft plan for proactive counter fraud work to be completed by Audit in 2024/25 is also in the process of being developed as part of the audit planning process.