

## **Audit and Governance Committee**

<b>DATE</b>	7/11/2024
<b>REPORT OF</b>	Executive Director Place and Resources
<b>SUBJECT</b>	Half yearly fraud update 2024/25
<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 for the period April to September 2024.

### **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 asked to consider the following two new points for 2024/25:

- i) Fraud Risk Profile. This documents the main areas of fraud the Council is vulnerable to, records a risk assessment of those areas, and determines the targeting of resources according to the level of perceived risk.
- ii) The assessment of new legislation – Section 199 of the Economic Crime and Corporate Transparency Act 2023 which places a duty on the Council to have sufficient preventative measures in place should a relevant offence occur. A report is being prepared for review by relevant senior managers and will be presented to members in due course.

### **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 2024/25, 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 framework of procedures and controls to minimise the risk of losses due to fraud. The Anti-Fraud and Corruption Strategy makes it clear that fraud and corruption will not be tolerated. The strategy is due for review in November 2025, at which point it will be brought to this committee for consideration and approval.
- 1.4. 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 due for review in November 2025; relevant processes in that plan are being promoted to ensure proactive steps are being taken to reduce fraud risk.
- 1.5. A peer review was conducted in 2023 at the request of North East Lincolnshire Council to ensure local arrangements were adequate. Future consideration may be given to repeating such a review, but it is proposed the new team structure is embedded before such a measure is taken.
- 1.6. The peer review identified two areas for consideration by this Committee. The FFCL strategy checklist recommended that there should be 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. The Portfolio Holder for Finance, Resources and Assets was subsequently nominated to carry out this role.
- 1.7. The second area for consideration was 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. In response to this the Audit and Assurance team is developing an enhanced Fraud Risk Profile which is intended to be a live document on which decisions are made about proportionate action.

## Acknowledging and understanding fraud risks

- 1.8. There has been enduring pressure on our communities since Coronavirus changed many behaviours and the country remains in the throes of a cost-of-living crisis, influenced by international uncertainty across the globe.
- 1.9. Though fraud offences nationally are reducing, fraud is still considered 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. The Council must act to prevent and detect fraud (and error) where possible. All staff have a responsibility to understand what fraud looks like, what to do when it is suspected, and how to report it. Advice and guidance is available on the Council intranet 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 October 2024, over 2000 employees and 38 elected members 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 Academy NEL platform. It is essential that all employees consider fraud as part of their daily business. The Fraud Team are unlikely to be the ones who discover fraud and rely on the eyes and ears of the workforce to tackle this area together. A proposal is being made to People and Culture to offer a short introduction to fraud for new employees on their induction day.
- 1.13. The Fraud Team are working in conjunction with Audit to review the Fraud Risk Profile. This will feed into the counter fraud and audit programme for both 2024/25 and 2025/26. This will include the exploration of offending behaviours against the mitigation in place to ensure proportionate controls are in place and steps can be taken to engineer out fraudulent behaviour where possible. Resources will be allocated by the Fraud Team to ensure a balance of preventative work against investigative outcomes – this will ensure a deterrent message is maintained where cases are disposed against the relevant sanction policies. 2024/25 sees a further National Fraud Initiative (NFI) exercise and the team are working closely with Audit to ensure the timely and effective review of the data; this comes with a heavy requirement to upskill existing staff. Work is also being invested in the use of technology (including analytical tools) to enhance data matching processes with the objective of early identification and removal of fraud and

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

<sup>2</sup> Annual Fraud Indicator 2023, Crowe, Peters & Peters and University of Portsmouth

error.

- 1.14. 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.
- 1.15. Recent consultation with the Audit Team has highlighted areas where the Fraud Team will complete workshops with staff from areas considered higher risk and include Council Tax, Business Rates, Adult Social Care, Procurement, and HR, which is also in accordance with the national fraud risks<sup>3</sup> reported by Chartered Institute of Public Finance and Accountancy (CIPFA) 2020. It is envisaged this joint working will commence in 2025 once the new team structure is embedded.

### Preventing and Detecting Fraud

- 1.16. The team 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. Collaboration is taking place with Audit in respect of the use of technology to make the data processing more efficient.
- 1.17. In 2024/25 to date, the following action has been taken (this acknowledges the agreed pause whilst the separate review managed by Local Taxation and Benefits is completed, on this basis figures will be lower):

Summary	Values
Number of review letters sent	61
Number of reminders sent	19
Number returned	51
Number returned with no change reported	31
Number of changes reported	20

- 1.18. 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.

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<sup>3</sup> Chartered Institute of Public Finance & Accountancy – Fraud and Corruption Tracker

- 1.19. Final figures for the 2023/24 process are now available and show that the review identified and removed 165 (previous period 141) SRDs that were no longer appropriate, resulting in an additional £36,844.31 in Council Tax available for collection.
- 1.20. In addition to the review, a further 25 Council Tax discount investigations have been completed, identifying increases in liability totalling £8114.71 with a further £10,943.65 in backdated liability available for collection.
- 1.21. Joint working with Department for Work and Pensions (DWP) is currently being explored to consider the advantages to the Council and this matter will be brought back to members for further discussion.
- 1.22. The Fraud Team have completed a restructure following the staff review. A new Lead Officer has been in post since May 2024 and Senior Fraud Investigator has been appointed from within the team and takes up day-to-day responsibilities for managing the team along with a complex case workload. The full-time fraud investigator vacancy has recently been appointed and HR vetting and reference checks are underway. It is hoped the new employee will be in post from approximately November / December 2024.

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

- 1.23. All losses identified are pursued in line with the Council's debt recovery strategy.
- 1.24. 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.
- 1.25. The team review, restructure, and staff vacancy have resulted in a reduced capacity for proactive investigative opportunities. There is a clear objective to ensure, where necessary, both court and out-of-court disposals are considered as this presents a clear message to those willing to commit offences against the Council. The Fraud Team are starting to work more closely with other teams sharing enforcement objectives to ensure those who seek to harm the communities across multiple areas receive a joined-up and appropriate response.
- 1.26. Research is currently being undertaken to consider the use of technology to support investigation. There are many analytical tools available to support the complex nature of Council fraud investigations and many of these aim to reduce the manual assessment of data by pulling together data from numerous sources, including open source data, and producing a richer product on which to base decisions around lines of enquiry. There are examples of Councils using this technology to alert them much earlier to information that may indicate a change that would affect council tax charges.

## **Protect**

- 1.27. Consideration will be given to investigation types that are likely to reduce the risk of fraud where financial loss is higher, thereby protecting the public purse.
- 1.28. 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.
- 1.29. The additional work to assure the Council of its legal obligations around Section 199 of the Economic Crime and Corporate Transparency Act will ensure a defence is available to the Local Authority in the event of a relevant offence being committed. The range of potential offences is quite narrow as the act is aimed mainly at large businesses. The position the Council will have to satisfy is one of having 'reasonable prevention measures in place' and work is underway to assure this.

## **2. RISKS AND OPPORTUNITIES**

The strategy is clear that fraud will not be tolerated, and the Council will act in such a way that is proportionate to assess and investigate reports made. This will include the use of technology to enhance investigation methods and analyse data to identify patterns of fraud behaviour.

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 not 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; the work to be undertaken with wider Council departments to raise fraud awareness is seen as a key way in which prevention will be adopted as a priority for all staff.

## **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. Staff Codes of Conduct reinforce the Council's anti-fraud message. Any allegations involving employees are dealt with through the Council discipline procedure and where cases are proven, appropriate sanctions are issued which may include dismissal.

## **12. WARD IMPLICATIONS**

No specific ward implications.

## **13. BACKGROUND PAPERS**

Anti-Fraud and Corruption Strategy (December 2023)  
Fraud Response Plan (December 2023)  
Annual Fraud Report 2022/23  
Fraud Risk Profile  
Section 199 of the Economic Crime and Corporate Transparency Act 2023 Report

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

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