

## **AUDIT AND GOVERNANCE COMMITTEE**

<b>DATE</b>	20 <sup>th</sup> April 2017
<b>REPORT OF</b>	Director - Governance, Democracy & Community Engagement
<b>SUBJECT</b>	Annual Fraud Report 2016/17
<b>STATUS</b>	Open

### **CONTRIBUTION TO OUR AIMS**

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. In particular it highlights the initial outcomes of the Council Tax single residency review.

### **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 2016/17 the attached reports 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 Committee in January 2015. The framework follows national guidance as laid out in the document "Fighting Fraud Locally", 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

1.2. The attached annual report highlights the work which has been carried out in each of these areas.

## **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.

## **3. OTHER OPTIONS CONSIDERED**

No other options were considered, as the production of an Annual Fraud Report are considered to be notable practice as laid out by CIPFA and the requirement for the Audit Committee to consider an Annual Fraud Report is a requirement 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 IMPLICATIONS**

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

## **6. LEGAL IMPLICATIONS**

There are no direct legal implications arising from the report.

## **7. 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.

## **8. WARD IMPLICATIONS**

No specific ward implications.

## **9. BACKGROUND PAPERS**

Anti-fraud and corruption strategy (March 2015).

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

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The  
Assurance  
People

NORTHERN LINCOLNSHIRE  
BUSINESS CONNECT

# **North East Lincolnshire Council**

## **Annual Fraud Report**

**2016/2017**

## **Introduction**

In November 2015, responsibility for Housing Benefit fraud investigation transferred to the Department for Work and Pensions (DWP). The Council has taken the opportunity to retain a small team of investigators (two investigators, one support officer and a manager) as part of its shared service arrangements with North Lincolnshire Council reporting directly to the Head of Audit and Assurance.

This report highlights the work which has been carried out 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**

All public bodies are at risk from fraud in one form or another, acknowledging this fact is vital in developing an effective anti-fraud response. Individual services need to understand where the risk of fraud lies and the consequences of those frauds (whether that be financial, reputation or other consequence) to enable them to develop an appropriate risk based response.

Key to this is an effective counter fraud culture that reinforces the Council's zero tolerance toward fraud. A culture that enables individuals to identify potential fraud and empowers them to report their concerns in a safe and secure manner to the appropriate people at the right time.

During 2016/17, work completed to acknowledge and understand fraud risk included:

- Carrying out an assessment against the CIPFA Fighting Fraud and Corruption Locally 2016-19 checklist. The conclusion of this work is that generally for the size of the authority our fraud response is adequate, but that the time is right for us to conduct a review of the risk of fraud and build this into the risk management process, whilst raising the awareness and understanding of fraud within services;
- Carrying out a high level risk assessment of the Council's anti-fraud and corruption arrangements, and;
- Working with services to understand their fraud risk and to introduce robust procedures to prevent and detect fraud. Working with the Council's Business Support Unit and ENGIE colleagues in Highways & Transport, a Disabled Persons Blue Badge

enforcement policy has been developed and publicised. This is supported by procedures to enable the Council & ENGIE to deal with abuses of the blue badge scheme in an appropriate and proportionate manner.

### **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.

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 at risk of fraud in order to assess their effectiveness and where appropriate recommend improvements.

During 2016-17 work to prevent and detect fraud included the following:

#### **2014-16 NFI outcomes**

- 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. From the 2014-16 exercise the Council have taken action as follows:

<b>2434</b>	Number of matches reviewed
<b>2</b>	Number of frauds identified
<b>17</b>	Number of errors identified
<b>£133k</b>	Amount of Housing Benefit overpayments identified

- Of the two fraud cases identified, both were prosecuted for failure to declare student income.
- The Housing Benefit overpayments by value were failure to declare student income and duplicate claims for Housing Benefit in other areas.
- Work has now commenced on the 2016-18 NFI exercise, with data being submitted and 5276 matches being returned for potential investigation.

### Single residency discount review

- A programme of rolling reviews of Council Tax single residency discounts has been introduced using credit reference agency data to identify cases where a discount may no longer be appropriate. Reviews are conducted on a bi-monthly basis with all single residency discounts being subject to review within a 12 month period. The first two bi –monthly reviews have identified the following:

<b>8396</b>	Number of single residency discounts reviewed
<b>2226</b>	Number of awards identified as requiring further action
<b>1680</b>	Review forms returned
<b>103</b>	Number of changes affecting single residency discount reported
<b>141</b>	Single residency discounts removed due to no response
<b>£86k</b>	Increase in amount of Council Tax available for collection

### Internal investigations 2016-17

- 9 internal allegations have been reported during 2016/17. Investigations have been conducted by HR and service areas with specialist support from Internal Audit where appropriate.

<b>11</b>	Number of allegations of fraud/financial misconduct reported
<b>1</b>	Number referred to other agencies (eg Police)
<b>9</b>	Number of investigations completed
<b>2</b>	Resigned/Dismissed
<b>4</b>	Other action taken (including management advice, warnings)
<b>3</b>	No issue identified
<b>1</b>	Investigations ongoing

The main concerns raised were in relation to inappropriate use of Council parking permits, theft and financial misconduct.

### 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 fraud team have been heavily involved in the development of a Blue Badge (Disabled Parking) Scheme Enforcement Policy to address the misuse of the scheme, including the provision of training for Civil Enforcement Officers. The policy is not punitive, it is designed to address misuse in the first instance through reminding badge holders of their responsibility, but for those who do not change their behaviour, it enables the Council to take further action including prosecution and/or refusal to renew a badge where necessary, using a joint approach between the Civil Enforcement Officers and Fraud Investigators.

<b>11</b>	Number of allegations of misuse investigated
<b>4</b>	Investigations completed
<b>1</b>	Sanction applied for misuse
<b>7</b>	Number of ongoing investigations

- The majority of allegations relate to the misuse of blue badge parking concessions by persons other than the badge holder.
- This is a new area of work. Of the initial investigations completed, one case of misuse was proven and the perpetrator issued with a Simple Caution. More importantly, we worked closely with the organisation to which the badge belonged to improve their procedures and their staff's understanding of their responsibilities under the scheme, thus significantly reducing the opportunity for further misuse to occur.

### **Reactive investigations**

- Reactive investigations into areas including Council Tax Support and Council Tax Discounts have been undertaken based on allegations received from a variety of sources, including public, internal teams and the Department for Work and Pensions (DWP).



<b>48</b>	Number of Council Tax Support investigations completed
<b>£10k</b>	Reduction in the amount of Council Tax Support
<b>£20k</b>	Amount of overpaid Council Tax Support
<b>3</b>	Number of sanctions applied
<b>47</b>	Number of Council Tax discount investigations completed
<b>£32k</b>	Increase in amount of Council Tax available for collection

- As a result of fraud investigations, two individuals accepted Simple Cautions and one accepted an Administrative Penalty for Council Tax Support fraud.
- Evidence obtained as part of Council Tax Support investigations has also resulted in £59k of Housing Benefit overpayments being identified.

### **Third party requests for information**

- The fraud team also have an important role to play in assisting other enforcement agencies to prevent and detect crime and protect the public purse. The team are the single point of contact 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.

<b>1177*</b>	Number of DWP requests for information
<b>526*</b>	Number of Police requests for information
<b>280*</b>	Number of 'other' enforcement agency enquiries

\* number based on total number of requests across Northern Lincolnshire Business Connect.

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

Where fraud is discovered the full range of sanctions will be used by the Council including civil, disciplinary and criminal action.

During 2016-17 action has included:

- Internal investigations resulting in the resignation of one officer and a further two receiving formal disciplinary action
- The offer and acceptance of three Simple Cautions (two for Council Tax Support fraud and one for blue badge abuse.
- As a matter of routine, all overpaid monies are considered for recovery where appropriate. Increases in Council tax liability due to the removal of single person discounts are pursued through increases to the individual Council Tax bill and collected as part of normal Council tax collection processes.

### **Future developments**

The assessment undertaken against the CIPFA Fighting Fraud and Corruption Locally 2016-19 checklist has highlighted opportunities to improve the Council's risk based approach to fraud and increase general awareness of fraud related issues, and an appropriate work programme is being developed including the biennial fraud awareness survey.

Further work will be taken to ensure that the potential loss of revenue due to the inappropriate award of Council Tax discounts is minimised. Work is underway with the Local Taxation & Benefits team to review the process of discount reviews, to ensure the system is as efficient as possible. The potential to use data matching to provide 'real time' indicators of when changes may have occurred will also be pursued as well as considering the potential to review other discounts such as the student exemption.