

SAFE WELL PROSPEROUS CONNECTED

Annual Fraud report 2021-22



**North
Lincolnshire
Council**
www.northlincs.gov.uk

Introduction

The North 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 2021-22 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 was updated and approved by Audit Committee in July 2021. The 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.

We have undertaken an assessment of our counter fraud arrangements measured against a checklist provided as part of the FFCL strategy. The conclusion of this work is that the council has many of the components of a strong anti-fraud culture but has also identified some areas where we can strengthen that culture further. These areas will be addressed in 2022/23.

Consideration is also being given to obtaining an independent audit of our counter fraud arrangements, to provide further assurance that our fraud response is appropriate and meets the needs of the council.

In addition to the Anti-fraud and corruption strategy, both the council's Fraud Response Plan and Reporting a Concern (Whistleblowing) policy have been reviewed and updated to ensure there is a consistent message to support those who wish to report fraud both internally or externally.

The Anti-bribery policy has also been reviewed to ensure it remains fit for purpose. All our policies and plans are published on our website and internally as appropriate to ensure they are available to staff and the general public.

Acknowledge and understand

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, reputational, or other) to enable them to develop an appropriate risk-based response.

The COVID 19 pandemic created new opportunities for fraudsters to exploit individuals, businesses and central/local government. As a council we were quick to publicise these new dangers and to provide support to local businesses and communities through the various schemes we were tasked to deliver.

There has been a clear understanding of the fraud risks associated with providing financial support under these schemes, demonstrated in particular, through the various business grants schemes the council has administered. By understanding the nature of the risks, the council has implemented robust controls to minimise the impact of fraud. By acting on intelligence disseminated through regular fraud alerts, the team have also identified a serious and organised attack on the grant schemes in our area, thwarting 20 fraudulent applications for grants in the past few weeks.

However, as the country comes out of restrictions and we establish a new 'normal', fraudsters will continue to look to identify and exploit weaknesses. The Audit Team will therefore be reviewing procedures that were revised or relaxed as a consequence of the pandemic, to ensure that processes that were put in place to prevent fraud are still appropriate and being followed.

Additionally, as the economy recovers, we will maintain a focus on areas such as local taxation and benefits to ensure that people are keeping the council updated on any change of circumstances. Particular focus will be placed on those support mechanisms that may have been utilised more during COVID and as the economy recovers, entitlements may have changed.

The methods used by fraudsters are continually evolving. None more so than in the commission of mandate fraud, a deception designed to mislead the council into changing a supplier's bank details to divert funds into the fraudster account. Fraudsters are using technology to hack email addresses and spoof emails to make them look like genuine ones from suppliers. This type of fraud has also become more prevalent over the past few months, with numerous attempts reported by public authorities.

Whilst the council has procedures to mitigate such attempts, unfortunately it was subject to a successful attempt to defraud in August, causing an initial loss of £49K (subsequently £44k of which has been recovered).

As a result, the opportunity was taken to review our procedures in relation to changes to supplier information. A number of improvements were identified and have been implemented, providing additional security to the process.

But key to preventing further losses is understanding the risks associated with changes to supplier information and the methods fraudsters use to steal council money. To raise awareness, we delivered a fraud awareness session on mandate fraud to those tasked with updating supplier information and we have also used fraud awareness tools provided by our banking partner to further increase knowledge and understanding of this fraud risk. More information for services on mandate fraud has been provided in our fraud A-Z on TOPdesk and we issued a council wide communication to emphasise the risks of mandate fraud. As part of our plan to deliver online fraud learning tools, a specific awareness video on mandate fraud has been developed and is currently in production.

The pandemic has brought about changes in how and where we work, and it is clear that there will be less of an emphasis on office-based activity. The use of visual fraud prompts and reminders in offices is no longer effective as the majority of colleagues continue to work from home. Therefore, in addition to the mandate fraud video, we have produced a general fraud awareness video that once live will be accessible to all staff via the LearningLincs platform. To coincide with the review of the Anti-bribery policy, a bribery awareness video is also under development, and we will continue to produce specific online fraud awareness content to support the awareness and understanding of fraud risk.

The identification of emerging fraud risk is essential if we are to understand and mitigate those risks. 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 finance, local taxation & benefits, electoral services, blue badge administration and business grants teams. The value of receiving such alerts is clear, as demonstrated by the recent identification of fraudulent business grant applications.

We continue to include topical fraud risks in the 'risk round up' newsletter available to all staff, including tips on how to mitigate the risks and what to do in the event of fraud to increase understanding of fraud risks.

Preventing and detecting fraud

Although the detection and recovery of fraudulently obtained finance 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 elements 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 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 2021/22, proactive work has also been completed in relation to the recruitments of agency workers. Spot checks have also been completed on a sample of establishments who receive cash income. The overall management of imprest accounts has also been reviewed.

From the sample tested to date, no issues relating to fraud have been identified. Where appropriate, actions to improve the existing controls have been highlighted to the relevant departments.

Business support grants

We have continued to administer several business grants schemes as part of the government's response to the pandemic.

As part of pre-payment checks we have made full use of the data matching opportunities provided, including limited company checks, sole trader checks and rogue bank account checks to identify fraudulent or ineligible applications. These checks have been supplemented by use of publicly available data, such as that held by the Insolvency Service and open-source data such as social media sites and the internet to provide further assurance.

Intelligence provided in regular fraud alerts identifying bank accounts, e-mail addresses and telephone numbers used in fraudulent applications has also been used, with applications checked against this data to minimise the risk of a fraudulent application being successful. This information was key in identifying the organised fraud attack where 20 applications were stopped prior to payment.

As a result, as of 28th February 2022, we are aware of only 23 fraudulent applications (20 of which were as part of one fraud).

Any payments made will be pursued under the council's debt recovery policy as well as being reported to central government.

To put those these 23 cases into context, since the initial wave of grant schemes announced in 2020, there have been a further 14 grant schemes not including the current Omicron Hospitality and Leisure Grants currently being administered.

Within these 14 schemes the council has made 8,529 grant payments with a value of almost £23.5M to local businesses.

Post assurance work also continues, and our risk assessment is regularly updated to reflect new and emerging risks as they are identified and notified to us via various counter fraud agencies.

The result of these robust checks has been that the council has been able to support businesses through this pandemic whilst minimising the risk of fraudulent applications.

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 76,000 Council Tax payers, of which about 26,000 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

To mitigate this risk, we procured the services of a Credit Reference Agency to conduct monthly checks to identify households that may have more than one adult resident. These Council Tax payers receive a letter asking to confirm their entitlement to the SRD, with those failing to reply receiving reminder. Those that still fail to respond have their SRD removed.

As of 1st March 2022, the monthly reviews have achieved the following results:

No.	Action
2654	Letters sent
762	Reminders sent
2064	Responses received with no change reported
402	Responses received reporting a change
285	SRD's removed as a result of a change being reported
121	SRD's removed due to failure to reply
406	Total number of SRD's removed
£145k	Charge generated
£25k	Additional liability for previous years

We continue to monitor every council tax liability that receives a single residency discount on a monthly basis, in order to quickly amend liabilities, thus ensuring that the maximum amount of Council Tax is available for collection.

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 latest exercise has identified 6,280 matches in 41 separate reports. The Fraud and Audit teams review these matches and act as appropriate to ensure any losses are identified and recovered.

We have currently reviewed the following:

No.	Action
1445	Number of individual matches reviewed
924	Closed – no issue identified
498	Closed – information in match was already known
13	Closed – match relates to Housing Benefit – referred to DWP
19	Investigations are ongoing
0	Number of frauds identified
5	Number of errors identified
£14,602.96	Amount of overpayments identified

The level of fraud/error that has been identified as a result of this exercise continues to be minimal. Less than 1% of matches have been found to be fraudulent or erroneous. This provides assurance that the Council has good data quality and processes in place to identify potential fraud issues.

Internal allegations

Six internal allegations have been reported during 2021/22 of which two constitute a whistleblowing allegation.

Of the allegations received, the following action has been taken:

No.	Action
6	Number of allegations of fraud/financial misconduct reported
0	Number referred to other agencies (e.g., Police)
4	Number of investigations completed (including 1 from previous year)
1	Resigned/Dismissed
1	Other action taken (including management advice, warnings)
2	No issue identified
3	Investigations ongoing

Of the four investigations completed, two established that there was no wrongdoing. One investigation uncovered evidence of potential wrongdoing. The matter was dealt with at a disciplinary hearing where the individual was dismissed for gross misconduct'. In the fourth case, although no wrongdoing was identified, the individual was given management advice as a precautionary measure.

The actions taken demonstrate that the council have robust procedures in place for dealing with internal allegations of fraud and financial misconduct and use these appropriately as necessary to reinforce the council's zero tolerance policy.

School admissions

The process for checking school admission applications to deter fraudulent applications is now fully embedded in the admissions process and uses data matching techniques to undertake a number of matches between school admissions data and Council Tax data to identify discrepancies in the information provided.

This data matching not only identifies cases where the information provided to school admissions may be incorrect, but also where the information is inconsistent with that held for Council tax purposes, for example where a parent completes a school admissions form and provides their address, but Council Tax records show another adult liable at that property claiming they are the only adult resident. These cases are then investigated by the fraud team.

Feedback from the school admissions team indicates that this process enables them to quickly identify potential incorrect applications and take action before a child is offered a place, thus removing the emotive issue of having to withdraw an offer.

Anecdotally, this level of cross checking also provides assurance to the public in general and in particular to the families looking to place their children in schools that the Council is taking all reasonable steps to ensure that school places are allocated correctly.

No.	Action
1716	Applications checked
262	Number of discrepancies identified
12	Allocation addresses updated
0	Number of school places affected
0	Cases taken to appeal
0	Appeals upheld

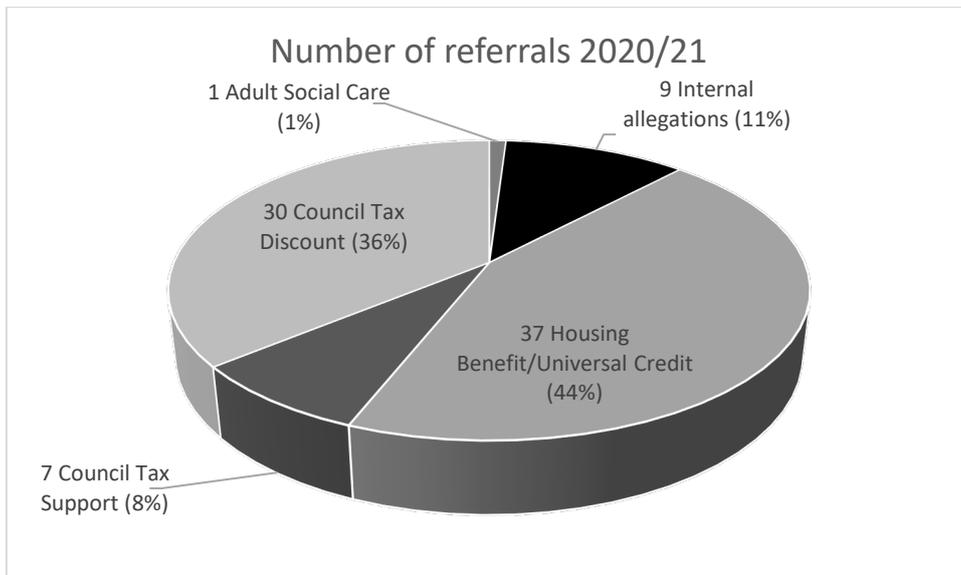
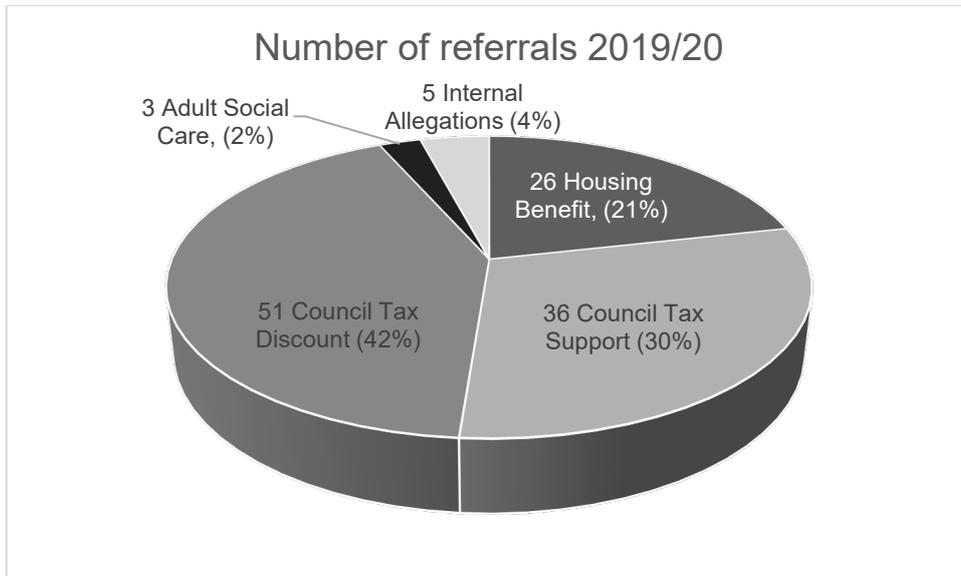
Reactive investigations

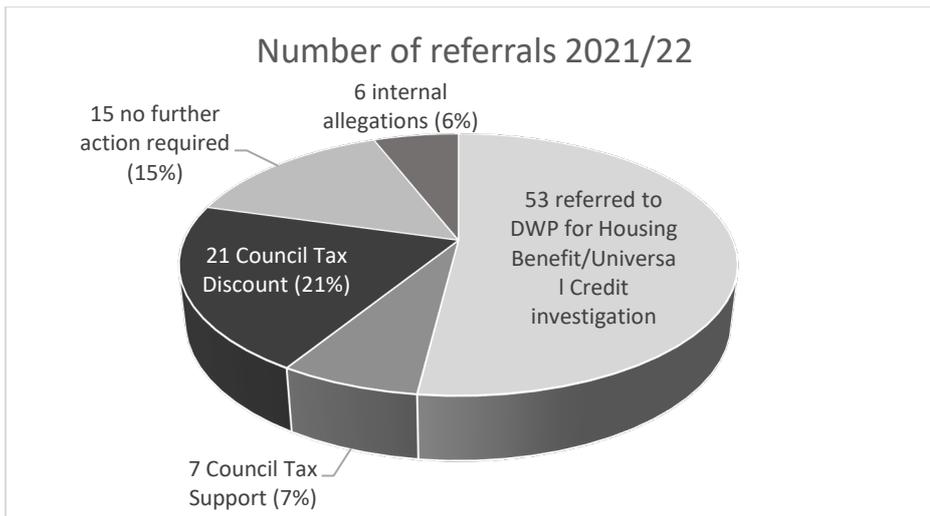
Allegations are received from a variety of sources, including members of the public, internal council teams, the Police, the NFI exercise and the Department for Work and Pensions (DWP).

In 2021/22, the Council received 102 referrals relating to allegations of fraud or financial misconduct (to 4 March 2022).

15 referrals were identified as requiring no further action, mainly as a result of there being no offence, or no benefits/discounts in payment.

A further 53 have been sent to the Department for Work and Pensions (DWP) to consider investigation for Housing Benefit or Universal Credit offences.





There has been a continuing decline in the number of referrals suitable for Council Tax Support investigation, due to the ongoing migration of customers onto Universal Credit. Most allegations relating to Council Tax Support also relate to Universal Credit or other DWP benefits and are therefore, referred to DWP to investigate.

From these referrals the following outcomes have been achieved:

No.	Action
2	Number of Council Tax Support investigations completed
£1k	Reduction in the amount of Council Tax Support
£2k	Amount of Council Tax Support identified as recoverable
23	Number of Council Tax discount investigations completed
£10k	Increase in amount of Council Tax available for collection

Although the number of reactive Council Tax investigations based on referrals has reduced, the monthly single residency review is highlighting cases requiring further proactive investigation. The results of these investigations are included in the review results detailed earlier in this report.

Information requests

The fraud team continue to play an important role in assisting other enforcement agencies to prevent and detect crime and protect the public purse. The team are the 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.

No.	Action
58	Number of DWP requests for information
299	Number of Police requests for information
137	Number of 'other' enforcement agency enquiries

Pursue

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.

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.

The COVID restrictions on 3rd party access to council premises has impacted on our ability to conduct interviews under caution over the past two years. With the continuing removal of those restrictions, we will restore the ability to undertake such interviewed where appropriate.

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 Lincolnshire.

Future developments

The Anti-Money Laundering policy will be reviewed and revised as necessary to ensure the council continues to meet its obligations in respect of reporting suspicious financial activity.

We will continue to develop and produce online fraud awareness packages to take account of the shift from predominantly office-based working to home working, enabling employees to access content wherever they work.

We will undertake a review of fraud risk assessments to ensure that services understand and appropriately mitigate fraud risk (including the risk of bribery) and conduct a staff survey to establish the level of awareness and understanding of fraud risks and the actions to take when fraud is identified or suspected.

A draft plan for proactive fraud work to be completed in 2021/22 is also in the process of being developed. The focus of the work within this plan will relate to the change in working practices that took place during 2020 and whether this has had an impact on controls relating to expenditure and authorisation.