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| SUBJECT: | FRAUD AND ERROR UPDATE REPORT (2017/18) 6 MONTHS |
| REPORT BY: | JOHN SCOTT, AUDIT MANAGER |
| LEAD OFFICER: | JOHN SCOTT, AUDIT MANAGER |

1. Purpose of Report

1.1 This report provides an update to Committee on Counter Fraud arrangements: -

2. Executive Summary

2.1 This report:

- Provides an update on the Lincolnshire Counter Fraud Partnership
- Provides a position statement on the National Fraud initiative
- Outlines fraud work within Housing benefits and other areas.
- Provides an update on counter fraud outcomes

2.2 Lincolnshire Counter Fraud Partnership (LCFP)

The Lincolnshire Counter Fraud Partnership involving all Lincolnshire Councils was created following the successful application for Government counter fraud funding. Partnership working across all Lincolnshire Councils has been extended to 31st March 2018.

This is being project managed by Lincolnshire County Council. The partnership has been involved with a number of counter fraud projects and has a forward programme of work.

2.3 Key Messages (November 2017)

The Lincolnshire Counter Fraud Partnership's (LCFP) arrangement continues to make efficient use of the limited counter fraud resources within the Lincolnshire local authorities. Extensive and varied communication channels have been used to promote fraud awareness among a wide audience and increased whistleblowing traffic is evidence that this is working well. Project savings further support achievements made.

Assurance Lincolnshire, on behalf of the Lincolnshire Counter Fraud Partnership (LCFP), continues to co-ordinate the response of Lincolnshire local authorities in tackling high-risk areas of fraud against the councils. The group has now been extended to include representatives from the Police and Crime Commissioner (PCC) for Lincolnshire and Lincolnshire Police. All partners have contributed to LCFP's funding in 2017/18.

2.4. Areas of progress in 2017/18 include:

- development of e-learning and sharing with district partners to enable them to

train their employees. Positive feedback has been received and staff have found the course interesting and informative. The course is increasing counter fraud knowledge

- successful delivery of the Council Tax Reduction (CTR) exercise¹ which identified revenue of around £500k² from CTR fraud & error. The approach will be rolled out across the other districts in 2018/19 – the estimated net revenue gain is £724k
- delivery of housing tenancy fraud briefing to encourage districts with housing stock to participate in a housing tenancy fraud data check
- LCFP part funded a resource to deliver a pilot scheme to expand the National Non Domestic Rate base. The project identified potential missing & undervalued properties. Savings are estimated at £151k and the NNDR base was increased by £409k
- SPD 2018: procurement arrangements have started for the 2018 review (estimated total net revenue gain £520k). Revenues & Benefits managers will establish responsibilities and milestones.

2.5 LCFP priority work during the remainder of 2017/18 includes delivery of regular communications with stakeholders aimed at building an anti-fraud culture. Follow up Fraud Health Check reviews will also be performed to evaluate the counter fraud measures in place against best practice.

3. Fraud Awareness

3.1 Efforts to build understanding of fraud risks and indicators have continued in 2017/18. Better knowledge and awareness should have the long term benefit of making the Council more resilient to fraud. A counter fraud culture depends on stakeholders at all levels playing a part to prevent and detect fraud.

A key development in 2017/18 has been the development and roll out of a Fraud Awareness e-learning course. This package includes sections on understanding fraud as well as steps to prevent and detect fraud. The key issue that fraud prevention is everybody's responsibility is also covered.

Lincolnshire County Council have recently commenced a proactive exercise on procurement fraud – this remains the largest single area of fraud loss within local government. A major element of this work will be to improve awareness of the risks involved. Fraud awareness material distributed and plan to identify high risk contract areas for further work. Information about the approach / findings will be shared with the districts – a starting point for their pro-active work in this area.

Plan to develop a supplier Code of Practice covering expectations about counter fraud arrangements.

¹ CTR pilot involved Boston Borough Council in collaboration with Capacitygrid

² CTR overpayments £181k, housing benefit overpayments £224k and subsidy / funding implications £93k

3.2 Targeted Pro-Active Exercises

We are in the early stages of an exercise to proactively prevent and detect procurement fraud. This has long been held nationally as a notoriously difficult area to tackle – estimates of fraud loss are high yet detection rates are low. We will be combining increased efforts to improve awareness of fraud risks within the procurement and contract management cycles with use of data analysis techniques

3.3 CIPFA Fraud and Corruption Tracker

We are awaiting CIPFA to release its report detailing the outcomes from their review.

3.4 Cyber-Crime

Group to develop a cyber-crime briefing note.

3.5 Housing Benefit

In 2016/17 the Council was involved with 184 benefit referrals to and from SFIS linked to possible benefit fraud. ColC officers are still responsible for agreeing administrative penalties.

For 2016/17 19 Housing Benefit administrative penalties were issued for City of Lincoln Council. These had a value of £27,368.74. The overpaid Housing Benefit value was £56,509.53.

So far in 2017/18 the Council was involved with 82 benefit referrals to and from SFIS linked to possible benefit fraud. ColC officers are still responsible for agreeing administrative penalties.

For 2017/18 5 Housing Benefit administrative penalties were issued by City of Lincoln Council. These had a value of £4463.08. Overpayments in these cases totalled £9053.97. Four cases were prosecuted and found guilty. Overpayments in these cases totalled £16,967.25. In total CTS values where these linked to HB cases were a reduction of £2329.58. Total overpayments are therefore £28,350.80.

The Benefit/CTS fraud, sanctions and prosecutions policy (January 16) is currently being reviewed; target date for update is 30th June 2018.

3.6 Right Benefit Initiative

RBI replaces Fraud and Error Reduction Incentive Scheme (FERIS) for 2017/18.

The Department for Work and Pensions have consulted with local authority (LA) representatives and the LA Association Steering Group and worked together to design the new initiative.

The aim of RBI is to maximise the return on the available investment, target LA activity on specific areas and remove elements of the previous schemes which were unattractive to LA's.

From 1 April 2017 local authorities (LAs) are asked to focus purely on combating

incorrect earnings and use RBI funding to process as many Optional Real Time Information (RTI) referrals as possible each month.

Where LAs have additional capacity after processing all their Optional RTI referrals in any given month we are asking authorities to undertake additional activities.

A Benefit officer will review the RBI file and undertake processing and a Benefit recovery officer will work on overpayments coming from RBI and these posts will be back-filled.

Of the 492 cases reviewed (CoC), we have created overpayments on 334 of them resulting in a total overpayment for the last 6 months of £129,913.79.

3.7 Council Tax Reduction/Support

Council Tax Reduction options are being discussed with Lincolnshire Counter Fraud Partnership officers.

Lincolnshire Finance Officers have agreed for a project similar to that used at Boston Borough Council. This to take place for City of Lincoln Council and four other districts in 2018/19 – the estimated net revenue gain is £724k

3.8 Housing Tenancy

For 2016/17 there have been no cases of sub-letting. During 2016/17 the Council served 9 notices to quit for non-occupation however.

So far in 2017/18 there have been 2 sub-letting cases and 11 notices to quit for non-occupation.

The tenancy fraud strategy and action plan is currently on hold. This is currently being assessed through our Tenancy internal audit.

A project was established through the Lincolnshire Counter Fraud partnership to undertake tenancy fraud data checks (using a third party credit reference company). It was decided not to progress this project.

3.9 Business Rates

The team are proactive in regards to utilising information from planning, building control, reading local newspapers and local knowledge.

Definition of fraud within business rates is difficult. Avoidance is a serious issue and one which does impact all Districts including City of Lincoln.

Some additional temporary resource was in place for 2016/17 to help identify avoidance and has been successful.

Other work was carried out in NKDC and WLDC.

The Invest to Save project which commenced in August 2016 and has been extended to 31st March 2018.

As a result of this work, the City of Lincoln RV for 2010 has increased by 119,018 and for 2017 by 143,318. For 2017/18, based on the multiplier of 0.466 this is an additional £66,786 of Business Rates income.

The Institute for Revenues, Rating and Valuation have recently launched their new advisory service - BREACH (Business Rates Evasion & Avoidance Checker). This is designed solely for billing authorities in the UK and is being used by the “invest to save” officer.

When gauging the success of the project, it is important to look beyond any increase in the NDR base for the year in which a property is brought in to the local rating list. What is important today will become even more important as we move forward to 2020 and potential 100% retention.

3.10 Council Tax

A Council Tax single person discount exercise is taking place during 2018 and will use a third party credit reference agency.

Procurement arrangements have started for the 2018 review (estimated total net revenue gain £520k). Revenues & Benefits managers will establish responsibilities and milestones.

3.11 Whistleblowing and Fraud Awareness

The Council continues to use the County wide hotline, which receives its own publicity. We have refreshed the Council Website counter fraud page, particularly around fraud/whistleblowing referrals. Communication to Managers and other employees has taken place around fraud risk, policies and reporting. Fraud-e-learning is to be rolled out from July 17

During 2016/17, we had 3 whistleblowing reports through the hotline.

During 2017/18, we have had 12 whistleblowing reports through the hotline.

6 x HB
1 x Fraud
3 x Council Tax
1 x Waste/refuse
1 x Contract

3.12 Cyber Fraud/Cyber Crime

The Council continues to be vigilant against malware/viruses, through its various defence layers including firewalls, filtering, system tools etc. An anti-malware internal audit was completed during 16/17.

In 17/18, we have completed an IT Disaster recovery audit and Application audits.

LCCFP Group is to develop a cyber-crime briefing note; this will be used to publish information on the councils website

3.13 Other Fraud

Credit card fraud

During 16/17 we had one case of credit card fraud linked to refund fraud (no financial loss to the Council). Other Councils had been targeted and the matter was reported to the Police. Procedures have been reviewed again.

17/18 – no cases of credit card fraud, that have impacted the Council.

3.14 City of Lincoln Council – National Fraud Initiative

The Council continues to be engaged with the National Fraud Initiative (NFI) which involves national data matching using a range of Council data sources including payroll, benefits, creditors, housing, and licences, insurance. The purpose of the data matching is to highlight “potential” fraud and error cases which require investigation. Council data was submitted to the NFI for 2016/17 in October 2016. Council tax and electoral roll data was submitted in December 2016/January 2017.

A review of Council Tax SPD is taking place in 2017/18 internally using NFI data.

The results of the work on matches so far are:

1930 matches (* less multiples) = 1764; processed 1552, 1 Fraud and 9 Errors, recovering £8,180.74 related to HB/CTR.

3.15 Fraud Strategy and Fraud Policies

Fraud Policies

A separate report on the Whistleblowing Policy was reported to the Audit Committee in December 2015. A revised money –laundering policy was reviewed in September 2016. The Counter fraud strategy has been updated, taking account of new CIPFA and DCLG Government guidance and was submitted to the Audit Committee September 2016. The Council’s anti-bribery policy was reviewed in February 2017.

The Whistleblowing policy is currently being updated and is being presented to the Audit Committee in December 2017.

Our updated counter fraud strategy in 2016 was based on the latest national guidance. During 17/18 we will be undertaking a health check review with LCC to ensure our arrangements are robust and we are focusing pro-active work correctly.

Both the Fraud Health Check and the Fraud Risk Assessment provide assurance that the Council is taking reasonable steps to manage the risk of fraud and corruption and supports the governance reporting arrangements.

The fraud risk assessment is currently being updated with a target date of 31/03/2018.

4. Outcomes

4.1 Operational outcomes to help evaluate effectiveness are included within the existing

strategy. The outcomes are shown at Table A below.

- High levels of fraud awareness
- Zero tolerance to fraud (number of referrals / ensuring suspicions reported and action taken)
- Reduced losses (a low incidence of fraud)
- Delivery of pro-active counter fraud work (work plan)
- Reducing the risk of fraud
- Successful prosecutions, other sanctions and recovery of losses
- Successfully engagement with partners

4.2

Table A

| Area | Comments |
|---|--|
| <p>Delivery of pro-active counter fraud work (work plan)</p> <p>Achieving counter fraud best practice</p> | <p>The Council's strategy is based on CIPFA and Government best practice and has been updated in line with new guidance.</p> <p>The Lincolnshire Counter Fraud Partnership uses Counter fraud specialists to support delivery of a County wide action plan. Outcomes are included within this report above. This partnership will run until at least 31/3/2018.</p> |
| <p>High levels of fraud awareness</p> | <p>Reminders are issued to all staff at least annually related to Council fraud policies, whistleblowing etc.</p> <p>On-line training planned for fourth quarter 2017/2018</p> <p>Other parts of the organisation particularly Housing benefits and Council Tax have had effective publicity and campaigns.</p> <p>The updated fraud risk register will help to raise awareness further and we have issued some communications around this.</p> <p>The Council's website fraud pages have been refreshed and made clearer.</p> <p>A future survey will help to gauge awareness</p> |
| <p>Successful prosecutions, other sanctions and recovery of losses</p> | <p>An updated sanctions and prosecutions policy was agreed in January 2016. This is being updated again in 2018</p> <p>Sanctions/prosecutions are outlined above</p> |
| <p>Reducing the risk of fraud</p> | <p>A fraud risk register is in place and being updated.</p> <p>The counter fraud action plan and risk mitigation actions should help to reduce risk further.</p> |

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|--|--|
| <p>Successfully engagement with partners</p> <p>(including National Fraud Initiative, HBMS, LCFP and others)</p> | <p>CoIC complies with NFI requirements and participates in reviewing and reporting on data/outcomes.</p> <p>The Council engages as a partners within the Lincolnshire Counter Fraud Partnership. The Police are a new partner for 17/18.</p> <p>The Council works closely with Department for Work and Pensions/Single Fraud Investigation Service.</p> <p>DWP RBI scheme</p> |
| <p>Zero tolerance to fraud</p> <p>(number of referrals/ensuring suspicions reported and action taken)</p> | <p>This is part of the reminders issued to all staff and there has been additional publicity around reporting fraud within City Hall public areas.</p> <p>Referrals are received from the public</p> <p>The Council has a relatively low incidence of reported fraud / loss generally.</p> <p>Further benchmarking would be useful, which the LCFP may action in 17/18</p> <p>Awaiting the CIPFA fraud and corruption tracker report</p> |
| <p>Reduced losses</p> <p>Low incidence of fraud</p> | <p>The Council has a relatively low incidence of reported fraud / loss generally.</p> <p>Further benchmarking would be useful, which the LCFP may action in 17/18</p> |

5. Insurance

There were no adverse trends during 16/17.

| 01/04/2016 - 31/03/2017 | | |
|-----------------------------|------------------------------|-------------------------|
| CAUSE | Number | Total Cost of Ins Claim |
| | Insurance Claims & Incidents | (Paid & Outstanding) |
| Arson - Perpetrator Unknown | 6 | £17,953.80 |
| Break In - No Theft | 3 | £2,218.60 |
| Malicious Damage | 4 | £508 |
| Theft - Forcible Entry | 1 | 2,708.39 |
| Theft | 6 | £400 |
| Vandalism | 22 | £6,282.36 |
| | Total | £30,071.15 |
| 01/04/2016 - 31/03/2017 | | |
| CAUSE | Number | Total Cost of Ins Claim |
| | Insurance Claims & Incidents | (Paid & Outstanding) |
| Arson - Perpetrator Unknown | 1 | £3,172.72 |
| Break In - No Theft | 2 | £0 |
| Malicious Damage | 1 | £1,116.14 |
| Theft - Forcible Entry | 0 | 0 |
| Theft | 1 | 0 |
| Vandalism | 24 | £11,326.34* |
| | Total | £15,942.20 |

Higher totals reflects three to four larger claims and double the amount of vandalism incidents. Overall the paid and outstanding figure for these areas is broadly similar.

6. Fraud Risk Register

6.1 The Corporate fraud risk register has been developed with officers, which has been effective from 2014. This was updated in June 2016 and will be updated before March 2018.

6.2 The register shows the main fraud risk types, fraud risk assessment and further actions that are proposed to mitigate the risks.

- Fraud Strategy
- Contracting /contract management
- Procurement
- Payments
- Income Collection
- Debt management
- Money laundering
- BACS /Cheque fraud
- Payroll / employees
- Treasury management / investment fraud
- Property / land/ equipment
- Grants - Housing and Economic Support / Third Sector
- False accounting
- IT / Data
- Insurance
- Council Tax
- Housing
- Business Rates
- Council Tax Support Scheme
- Housing Benefit
- Development Management
- Theft/Asset misuse
- Refund fraud
- Election fraud

7. Fraud Case Summary (17/18)

7.1

| | Fraud cases | Comments |
|---|-------------|----------|
| Procurement | 0 | |
| Insurance Claims | 0 | |
| Investments | 0 | |
| Economic & Voluntary Sector Support | 0 | |
| Debt | 0 | |
| Expenses | 0 | |
| Payroll | 0 | |
| Recruitment | 0 | |
| Pensions | 0 | |
| Mandate Fraud | 0 | |
| Manipulation of Data(financial and non-financial) | 0 | |

| | | |
|-----------------------------|---|--------------------------------|
| Other Fraud | 0 | |
| No Recourse to Public Funds | 0 | |
| Ctax CTR | 0 | Linked to HB cases £2329.58 |
| Ctax SPD | 0 | |
| Ctax other | 0 | |

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|----------------------|---|--|
| Business rates | 0 | Avoidance For 2017/18, based on the multiplier of 0.466 this is an additional £66,786 of Business Rates income. |
| Housing benefit | 9 | £26,021.22 overpayment value |
| Housing right to buy | 0 | |
| Housing sub letting | 2 | |
| Housing other | | 11 Non occupation |
| | | |

8. Recommendation

8.1 That Members consider and comment on the report.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No
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How many appendices does the report contain? One

List of Background Papers:

Lead Officer: John Scott, Audit Manager Telephone 873321

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|---|---|---|---|--|--|
| 5 | <p>Communication</p> <p>Regular reminders to staff</p> <p>Policies Gifts and Hospitality Reporting fraud Whistleblowing</p> <p>Successful cases - Media</p> <p>Publicity to suppliers / contractors Contractor and third party raising awareness – LCFP is pulling together a best practice guide for these</p> | <p>Medium</p> <p>Medium</p> | <p>December 17</p> <p>31/03/2018</p> | <p>Audit Manager</p> <p>LCFP</p> | <p>Commenced</p> |
| 6 | <p>NFI – complete current data Matching</p> <p>Electoral roll / SPD data January 2018</p> <p>Creditor duplicate check</p> | <p>Medium</p> <p>Medium</p> <p>Medium</p> | <p>31/03/2018</p> <p>30/01/2018</p> <p>31/03/2018</p> | <p>Audit Manager</p> <p>Audit Manager</p> <p>Audit Manager</p> | <p>Ongoing</p> |
| 7 | <p>Identity checks / documents</p> | <p>Medium</p> | <p>31/03/2018</p> | <p>Audit Manager LCFP</p> | |
| 8 | <p>To undertake counter fraud “healthcheck”</p> | <p>Medium</p> | <p>2017/18</p> | <p>AM LCFP</p> | <p>17/18</p> |
| 9 | <p>Serious and organised crime checklist</p> | <p>Medium</p> | <p>2017/18</p> | <p>AM LCFP</p> | <p>Using the checklist on certain audits To complete</p> |