



15 January 2025

Agenda Item:5

**REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &
IMPROVEMENT**

COUNTER-FRAUD PROGRESS REPORT

Purpose of the Report

1. To update the Governance and Ethics Committee on the counter-fraud work undertaken to date in 2024/25.

Information

2. Counter-fraud work has continued to focus on key risk areas during 2024/25 and the Council has remained vigilant to the threat of fraud and emerging risks.
3. The report brings together work undertaken in relation to:
 - The National Fraud Initiative (NFI) – outcomes from the 2022-24 exercise and matches from the 2024-2026 exercise.
 - Counter-fraud activities – to provide an update on recent, pro-active work; and
 - Counter-fraud action plan - an update on progress made against the action plan

National Fraud Initiative

4. The Council participates every two years in the compulsory NFI exercise. Data matching reports were generated from the exercise, comparing Council data to data sources such as the Driver & Vehicle Licensing Agency (DVLA), mortality data, and the Department for Work & Pensions (DWP). The outcomes for the most recent exercise in 2022-2024 are shown below in **Table 1**.

Table 1 – Final Position for the Headline Categories of Potential Fraud/Error - 2022-2024

Category	2022-2024
Pension/Payroll matches	820 of 927 cases have been processed with no reported outcomes.
Trade Creditors	1,796 cases opened from 5,881 matches identified. 6 duplicate payments totalling £32,177 were detected.
Total	£32,177

Other significant estimated results	
Blue Badges cancelled or withdrawn (no's)	All 2,193 cases have been processed. 663 errors were noted with co-estimated savings of £430,950 ¹ .
Concessionary Travel Passes Cancelled (no's)	All 2,641 matches processed. £56,203 ² reported outcomes from 1,815 cases
Residents Parking Permits	12 cases opened and processed. No reported outcomes
¹ £650 per blue badge cancelled to reflect the estimated annual cost of blue badge fraud, the likelihood that badges are misused and the duration that fraudulent misuse will continue. ² Number of passes stolen multiplied by £30.97, based on the NFI estimate cost of reimbursement to bus operators for journeys made under the concessionary pass scheme and the duration of fraudulent pass misuse estimated.	

5. Work has commenced in relation to collating the data for the 2024-2026 NFI matching exercise. The first matches will be released by the Cabinet Office in December 2024. An update on progress in relation to the current NFI exercise will be provided in the annual fraud report and subsequent progress reports to future G&E Committees.

Counter-fraud E-learning and Other Activities

6. We included in our priorities for 2024/25 a review of our fraud training material to incorporate new and evolving fraud risks. The council recently procured Kallidus, a new learning management system and we are on track to re-launch our training material on this system in the new year.

7. Although a small number in total, recent trends indicate an increase in insider fraud cases within the Council. In such cases, staff members are often the first to detect behavioural changes with their colleagues or notice signs that something is not quite right. These observations can prompt them to report suspicions to management for further investigation. Ensuring that employees understand how to report concerns and are aware of the processes for doing so will help to ensure that such cases are brought to management's attention for further investigation.

8. Fraud awareness has been raised again through the International Fraud Awareness Week. This ran from 13 – 19 November 2024 and was publicised on the council's intranet during November. Included in the article were key fraud risks taken from recent intelligence and horizon scanning, links to key documents and information and actions staff can take to mitigate against fraud risk.

9. In October, to reinforce counter-fraud messages and to coincide with cyber security awareness month, the ICT department published an article on the intranet which outlined the risks of email phishing and social engineering.

10. As reported in our Annual Fraud Report in July, we had an action to develop a more effective and wider-reaching fraud risk assessment process. This work is currently underway and we are expecting to complete this work by the end of April 2025. A further update will be provided to Members of the G&E Committee as part of the annual fraud report.

11. As part of this fraud risk assessment, we will engage with staff to help identify potential insider risks. We will also encourage all employees to participate in fraud training and familiarise themselves with the Council's Counter-Fraud Policy and Strategy.

12. The Risk and Insurance Team remain vigilant to potentially fraudulent claims and continue to undertake pro-active detection work, including using the fraud checklist to assist in the identification of fraudulent claims. No fraudulent claims were identified during financial year 2023-24, although the team have been active in the successful defence of claims made against the council. In the first half of 2024-25, the Team has successfully defended 1,368 claims for compensation, four of which were successfully defended at trial. This equates to a savings value of £1.64m between April and September 2024. A further update on the current financial year will be provided in the next Annual Fraud Report.
13. Internal Audit continues to be involved in fraud investigation activities and are currently monitoring six live cases. The developments and outcomes continue to be reported to the Chairman of this committee through regular updates with the Chief Internal Auditor and are summarised to all members in the Annual Fraud Report.
14. During the year there were two insider fraud cases which were investigated internally and by the Police. These cases have now been taken to court. One of these cases was in a school and one within Adults Department at NCC. Both employees were found guilty and have been given custodial sentences. The Council is now pursuing recovery against these individuals. Due to the nature of these frauds, a review of procedures was undertaken and the need for more robust controls was identified. Agreed actions have been followed up through our action tracking process.
15. Investigations are ongoing in relation to the other four cases and three staff have been dismissed or suspended, pending the investigations. Further updates in these cases will be provided as part of the Annual Fraud Report and Chairman's updates.
16. The National Fraud Intelligence Bureau (NFIB) monitor and analyse action fraud data on a monthly basis. In July 2024 they reported that fraud had continued to rise compared to previous years. Cyber-crime has grown significantly (57.2%) in the last year and the hacking of social media and email accounts was the most prolific type of cyber-crime, accounting for around 67% of all cyber-crime. Hacking, business email compromise (BEC) and ransomware also remain in the top three types of cyber-crime and hacking of personal/work devices has almost doubled between June and July.
17. Internal Audit have been proactive to raise awareness of cyber-crime as part of International Fraud Awareness Week and this also features as part of our fraud risk assessment.
18. In the year, we have continued to work with Schools Finance to raise awareness of the types of fraud that are currently trending and share best practice to prevent further losses. Processes are now in place to share advice and alerts with schools on a regular basis through emails and the School Newsletter produced by Schools Finance and Internal Audit have contributed towards this.

Fighting Fraud and Corruption Locally (FFCL) Strategy and Checklist

19. FFCL 2020 is the latest national strategy developed jointly by central government and Cifas (a not-for-profit fraud prevention membership organisation). This provides the blueprint for a co-ordinated response to fraud for local authorities.

20. The national strategy contained a recommendation for organisations to consider their options in relation to providing counter-fraud coverage and provided a self-assessment checklist for completion. Internal Audit previously completed the self-assessment for the Council, and the outcome was presented to Members. All actions have now been completed, although some actions are ongoing. These actions include:

- Providing regular reports on fraud risks to the Chair of Governance and Ethics Committee
- Monitoring compliance with standards of conduct across the local authority
- Reviewing the Registers of Interest for Members and staff.
- Using data analytical techniques to identify fraudulent activity
- Updating the fraud risk assessment annually using latest intelligence

When a new strategy is released, this will be a timely point to complete a new checklist.

21. We have updated the Counter Fraud Risk Assessment to capture FFCL emerging issues, along with frauds that we have gathered from our intelligence sources through our connections with national fraud networks (see further details below) and other fraud risks identified as part of our internal fraud risk assessment. The risk assessment identifies high priority areas for the consideration of pro-active counter-fraud work. High risks continue to include insider fraud, procurement fraud, mandate fraud, adult social care abuse of payments, pension fund fraud and cyber-crime.

Counter Fraud Networks and National Picture

22. Cifas is an organisation that helps protect individuals and businesses from fraud and financial crime. Cifas maintains the UK's largest database of fraudulent conduct and works with members to prevent fraud across various sectors. Fraudscape is Cifas' annual report that combines data from its National Fraud database and Insider Threat database. The 6-month update to Fraudscape for 2024, continues to report that employee fraud remains a threat to organisations. This includes people stealing from their employer, falsely applying for jobs, providing fake employment details and concealing adverse employment history to gain employment. We have confirmed that the Business Services Centre (BSC) continue to have robust measures in place ensuring that appropriate pre-employment checks are undertaken when a new starter is employed.

23. This includes completion of right to work checks which are a statutory obligation and an essential part of the Authority's onboarding process. No new starters are setup on payroll unless a right to work in the UK check has been successfully completed. The online system for Digital Identity Verification Process (DIVP) enables candidates who hold a current UK or Irish passport to use a new online process to submit and confirm their right to work in the UK and also includes identity verification for recruitment-based DBS checks. Work has been completed to integrate DIVP functionality into the pre-employment solution. The next phase will be to rollout DIVP to all internal NCC business units undertaking DBS checks and this expected to complete in March 2025.

24. In addition to the audit work already outlined above, counter-fraud pieces of work continue to be incorporated into our termly planning, and key findings will be shared with Members.

25. It remains a key area of focus for the Internal Audit team to support the Council through the provision of timely advice and consultancy on appropriate counter-fraud measures and internal control.
26. We continue to disseminate any alerts received from other bodies such as Cifas, National Anti-Fraud Network (NAFN), NFIB and the Midland Counties Counter-Fraud Group (MCCFG). The MCCFG Knowledge Hub continues to be used as a forum to raise questions and share knowledge of potentially fraudulent activity or issues that have arisen at other local authorities to inform our risk assessment.
27. The Council's Counter-Fraud & Counter-Corruption Strategy and Fraud Response Plan are reviewed annually and the latest versions are available on the intranet. A further update will be conducted following our action to review the fraud risk assessment process in 2024-2025.

Counter Fraud Action Plan Progress

28. We have reviewed the implementation of actions for 2024/25 within the Counter-Fraud Action Plan which was reported to the Governance and Ethics Committee in July 2024. The table below is an update on progress for each of the outstanding actions. All previously completed actions have been removed from the current action plan.

Action	Timescale
Conduct a review of the misuse of Direct Payments in Adult Social Care	March 2025 – Termly planning term 3
Continue to carry out actions in relation to the FFCL self-assessment, pending the release of a new strategy.	Ongoing
Review counter-fraud e-learning and consider whether training should be mandatory for finance staff, budget holders and those involved in purchasing, payments and other financial activity.	Ongoing - to be completed by March 2025
Develop a more effective fraud risk assessment processes to help identify key fraud risk areas to guide the Audit Plan. Internal Audit will engage with departments to widen understanding of fraud risks, involving a wider range of stakeholders. It is anticipated that further engagement will identify potential areas of weakness for fraud. Any fraud risks will be considered as part of our termly plan and reported to the G&E Committee.	Ongoing - to be completed by March 2025

Other Options Considered

29. The Audit Section is working to the Public Sector Internal Audit Standards and the contents of the Counter Fraud Action Plan. This report follows the requirements of the Standards to undertake a risk-based approach to counter fraud work and report progress and outcomes of such work. No other option was considered.

Reason for Recommendation

30. To report the progress made by the Chief Internal Auditor – in undertaking counter fraud work.

Statutory and Policy Implications

31. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Crime and disorder

32. The Council's Counter-Fraud Policy provides for a zero-tolerance approach to fraud and corruption. The Fraud Response Plan provides for all suspected cases being considered for referral to the Police for investigation.

Human Resources implications

33. Under the zero-tolerance approach in the Council's Counter-Fraud Policy, all suspected cases involving members of the Council's staff are investigated and consideration given to disciplinary proceedings.

Financial Implications

34. Any money lost to fraud is money that cannot be spent delivering critical public services to the citizens of Nottinghamshire. The Annual Fraud Report for 2023/24 was presented to the Governance & Ethics Committee in July 2024 and identified that the value of detected or prevented fraud in that year amounted to approximately £411,016.

RECOMMENDATION

1) Members note the contents of the report.

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For any enquiries about this report please contact:

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Constitutional Comments (EKH 05/12/2024)

35. Governance and Ethics Committee is the appropriate body to consider the content of the report.

Financial Comments (SES 03/12/2024)

36. There are no specific financial implications arising directly from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

All