

18 December 2018

Agenda Item: 9

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

COUNTER FRAUD PROGRESS REPORT

Purpose of the Report

1. To update the Governance and Ethics Committee (G&E) of the Counter Fraud work undertaken in the first two Terms of the 2018/19 Internal Audit Plan.
2. To endorse the proposed policy statement for preventing facilitation of tax evasion.

Information

3. The report brings together work undertaken in relation to:
 - National Fraud Initiative (NFI) - to report the outcomes of NFI 2016-2018, both in terms of the national outcomes and for this Council. The report also identifies developments that will impact on the 2018-2020 NFI exercise.
 - Serious Organised Crime Audit – to provide an update on progress made against the agreed actions from this report.
 - Criminal Finances Act 2017: Preventing Tax Evasion – to propose a policy statement.
 - Counter fraud e-learning and other activities – to provide an update on recent, pro-active work
 - Fraud Response Plan and Annual Governance Statement – to provide an update on progress made against the action plan items in these documents.

National Fraud Initiative

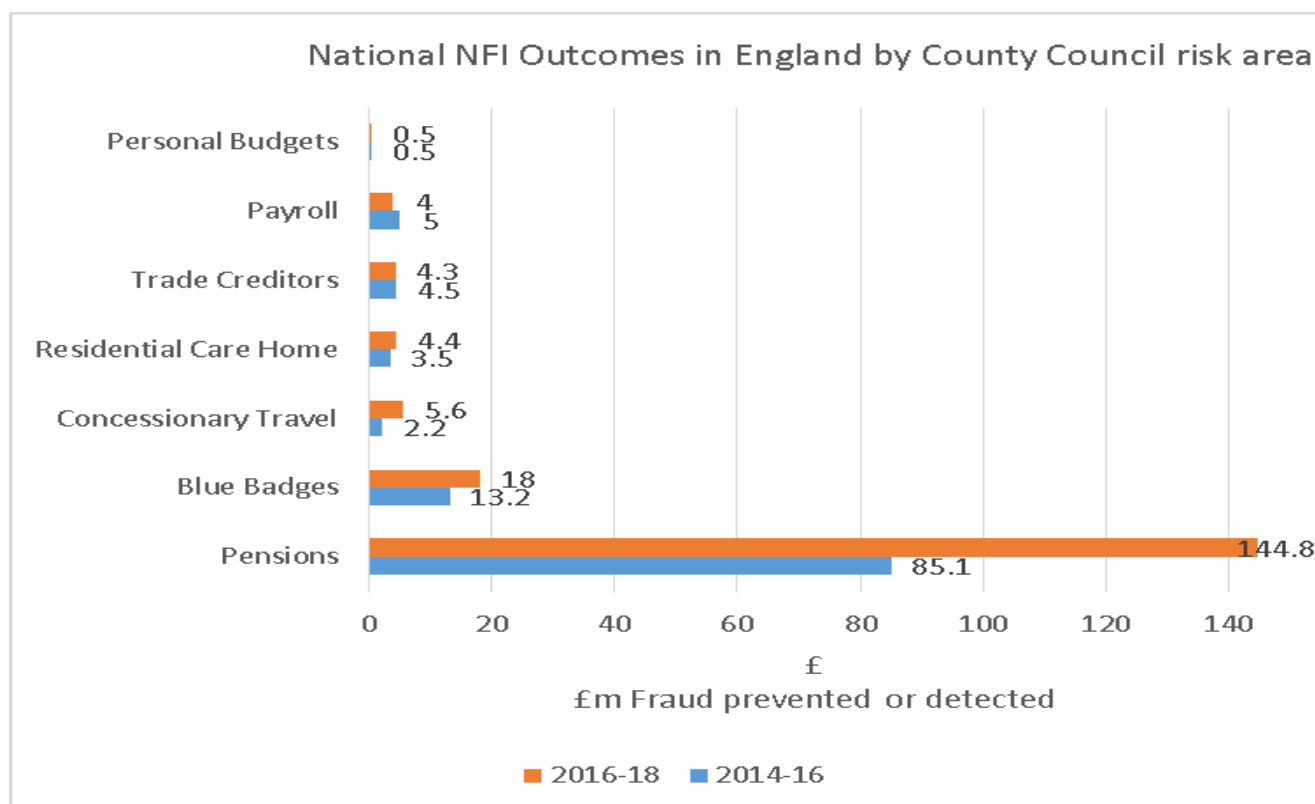
4. The Council pays £3,750 every two years to participate in the compulsory NFI exercise. Key statistics from NCC's participation in the 2016-18 exercise are the following:
 - 32 data matching reports were generated from the exercise comparing NCC data to data sources such as DVLA, Mortality Data, and DWP etc.
 - This generated 16,918 matches and 6,561 matches recommended for high priority review
 - The key contacts within the Council examined a total of 8,304 matches on a risk based approach which included all of the 6,561 recommended matches
 - £7,366.62 of outcomes were identified from the matches examined. **(See Table 1 below).**

5. In terms of the national outcomes, the success of the 2016-18 exercise is summarised in the following quotation from the national report:

'The National Fraud Initiative, the Cabinet Office's data matching service, has enabled participating organisations to prevent and detect over £300 million fraud and error in the period April 2016 to March 2018. This is a record for the NFI in any reporting period since its creation in 1996, and brings cumulative outcomes to £1.69 billion. This is a signal of how seriously the government is taking the challenge that it set itself - to find and tackle fraud in the public sector and protect vital public services.'

Chloe Smith – Minister for the Constitution

6. The 2016-18 exercise cost £2.8m and enabled £301.2m of outcomes to be prevented or detected. This included significant amounts of fraud relating to District Council functions, such as Council Tax Single Person Discount (£32.6m in 2016-18) and Housing Benefit (£24.9m in 2016-18). With regards to County Council functions, the following chart depicts a comparison between the value of outcomes for 2016-18 with the 2014-16 exercise.



7. The 2016-18 national outcomes in the headline categories of fraud for County Councils are shown below in **Table 1** alongside the NCC outcomes.

Table 1 – Headline Categories of Fraud for County Councils 2016-18

Category	NFI	NCC
Pension Fraud and Overpayments	£144.8m	£0
Personal budgets	£0.5m	£5,848
Trade Creditors	£4.3m	£1,498
Other significant results		
Blue Badges revoked or withdrawn (no's)	31,223	0
Concessionary Travel Passes Cancelled (no's)	234,154	2
Payments to Private Care Homes for Deceased Persons (no's)	275	0

8. The Council has implemented a number of measures to counter fraudulent activity that are linked to the NFI categories. Those relating to direct payment misuse were reported to members in September 2018. Measures include:
- Routine pension mortality screening, life certification and use of NFI recheck (see below);
 - Joint responses with District Councils to review Council Tax Single Person Discounts to ensure the correct Council Tax Base;
 - The pro-active use of prepayment cards to manage direct payments;
 - Robust assessment criteria for blue badge qualification that include Personal Independence Payments and High Rate Disability Living;
 - Challenging trade creditor vetting processes utilising pre-payment software to identify potential fraudulent payments;
 - Payroll payment approval and BACS credit returns reviews;
 - Robust processes for establishing and amending trade creditor bank mandate records; and
 - Parking enforcement patrol checks for loan or misuse of blue badges.
9. A more detailed analysis of each risk area and how they can provide intelligence for the 2018-20 exercise is provided in **Appendix A**. A summary of the key issues from **Appendix A** are:
- Pensions – cases of failure to notify deaths continue to rise and result in overpayment of pensions. NCC are engaging in a Recheck exercise to increase the frequency of reviewing data matches.
 - Blue Badges – there has been an increase in the number of blue badge cancellations and the value of outcomes. NCC has limited results in this area which will be reviewed during the 2018-20 exercise.
 - Concessionary Travel – the volume and value of matches doubled for this exercise but the Council's results were limited. This is an area that will be reviewed as part of the 2018-20 exercise.
 - Residential Care Home – the volume of cases continues to rise along with the average case value. The Council are exploring how mortality data can be used to assist our work.

- Trade Creditors – cases continue to be identified but the Council has implemented preventative measures which has stopped £34,080 of duplicate payments in 2017/18.
 - Personal Budgets – these cases continue to be reported mainly because of late death notification. The Council is exploring the use of mortality data to identify issues for investigation.
10. The Cabinet Office have been developing products offered to Local Government as a result of the 2016-18 NFI, such as the Recheck facility. This provides the opportunity to resubmit data sets for matching against more recent data sources, thus providing more up-to-date match records. One common criticism of NFI is that its biennial timeframe means that matches may be out of date or not provide for prompt action to the data concerned.
11. The Council participated in this exercise for matching pension records to mortality data. As a result of the Recheck exercise 154 matches were identified where, potentially, deaths had not been notified. These have been checked by Pensions staff and have identified 23 cases involving potential overpayments to the value of £13,484.63. Work continues to recover the overpayments and this pro-active work assists the Nottinghamshire Pension Fund fulfil its mortality checking obligations.
12. NCC will be participating in the 2018-20 NFI exercise and has published privacy notices and submitted data sets to enable the generation of data matching reports due early 2019. The Cabinet Office have provided clearer guidance on how it interprets outcomes which will be used by NCC to refine how it records its own outcomes. This will assist in ensuring that NCC captures all outcomes in a complete and consistent way. **(Further details are provided in Appendix A).**

Serious and Organised Crime Audit

13. The final audit report was issued in Term 1. Since completion we have followed up the implementation of the four recommendations made. Each of the recommendations have been implemented although further work is required in relation to engagement with taxi licensing authorities to routinely update the Disclosure and Barring Service (DBS) status of employees. Details are shown below in **Table 2** and these actions will also be included in Internal Audit's next scheduled update to the Committee on the implementation of agreed management actions (January 2019).

Table 2 – Serious and Organised Crime Audit – Implementation of Recommendations

Recommendation	Response	Implementation
The Transport Team should engage with the local taxi licensing authorities and taxi companies to put in place arrangements for the County Council to be routinely updated on the DBS status of the employees of taxi companies with which the Council contracts.	Agreed. We will work the licensing authorities to monitor the DBS information received.	Partly – work is on-going with taxi companies.
The Transport Services Team	Agreed. Awareness material for	Partly – material is

Recommendation	Response	Implementation
should refresh awareness material provided to users in order to encourage them to come forward and raise any concerns regarding the service provided.	taxi users will be refreshed and re-issued.	being refreshed and reissued.
The Group Manager - Procurement should consider sharing information for sensitive and vulnerable procurement processes with the Police so that any connection with known serious and organised crime groups can be kept under periodic review.	Agreed. The Group Manager – Procurement will share concerns and intelligence with the Head of Internal Audit and the Single Point of Contact (SPOC) at Nottinghamshire Police using the established communication channels.	Implemented – these continue to be considered and none have arisen to date.
The Group Manager Business Support Centre should ensure that staff engaged in roles that require receiving payments from, and processing refunds to, paying customers should receive anti-money laundering awareness training.	Training has been provided to staff within the Business Services Centre, however specific training has not been provided to all front-line staff. Awareness materials and reference to the action to be taken in the event of concerns in line with the Anti-Money Laundering Policy will be made available to staff involved in cash receipting and debt management.	Implemented – materials have being provided and refresh provided to key staff.

14. We have continued to develop relationships with Nottinghamshire Police and through the Single Point of Contact we have worked with the Police Intelligence Analysis Team to undertake a 'data washing' exercise. We have provided data in relation to NCC contractors to identify any matches with known targets that could assist the Police or ourselves with further lines of enquiry. The 'data washing' exercise continues to be analysed and we will respond to any subsequent request for information from Nottinghamshire Police.

Criminal Finances Act 2017 – Preventing Tax Evasion

15. There is a new statutory requirement for the Council to prevent the facilitation of tax evasion by staff and "contractual associates". Contractual associates are persons who perform services for or on behalf of the Council or who are acting in the capacity of persons performing such services. This includes the adoption of a corporate policy statement.

16. Part 3 of the Criminal Finances Act 2017 creates a new criminal offence where a corporate body fails to prevent the facilitation of tax evasion by its staff and contractual associates. Governance procedures are already in place that should meet the Act's requirements; and there is no suggestion that the Council tolerates tax evasion, or that staff engage in such behaviour. However, adopting an explicit, corporate policy will help the Council defend any future allegation that it has facilitated tax evasion.

17. The policy attached at **Appendix B** reiterates that staff and contractual associates must:
- always follow Council policies, procedures and guidance;
 - never help anyone else evade tax;
 - tell management if criminal activity is suspected;
 - attend any appropriate training offered.
18. It is a requirement that the policy on preventing the facilitation of tax evasion has top level commitment. The policy has been endorsed by the Corporate Leadership Team and is now referred to this Committee to request its recommendation to the policy Committee for approval and adoption. Once approved, the policy should be communicated to current staff and included in induction training for new members of staff. The policy should also be published on the Council's public website.
19. Following adoption of the policy it is envisaged that Internal Audit will undertake an exposure risk assessment to the Criminal Finance Act based on the current fraud risk assessment areas. As a result of this, on-line training will be developed for staff with the highest risk of exposure, for example in the areas of: invoice processing; property transactions; BACS payments; payroll and pensions processing, etc. This would be supported through general awareness training through Team Talk.
20. It is hoped that the policy can be adopted over the winter period of 2018/19 and training for high risk staff would be completed by the spring of 2019 and subsequently made available to all staff.

Counter Fraud E-learning and Other Activities

21. The Counter Fraud E-learning materials were released to all staff through the intranet in July 2018. Since its release, the training package has been completed by 177 staff. **Table 3** below shows the breakdown of completions across departments.

Table 3 – Completion of Counter Fraud E-learning

Department	Completions
ASCH	56
Chief Executives	65
C&F	44
Place	12
Total	177

22. We have continued to monitor the completion of the training and have undertaken a re-launch of the e-learning materials as part of International Fraud Awareness Week which ran from 11 – 17 November 2018. We will then be in a position to monitor take-up and follow up completion with individual departments. The re-launch involved a Team Talk article to raise awareness of fraud and to remind staff of the training available, how to protect the Council and themselves from fraud.
23. On the 15 October 2018 the Council's insurers, Zurich Municipal, attended the Council offices and provided an hour long fraud update to the Council's claims handlers. The training built on the fraud procedures that the team has in place, but gave an insight into some of the current tactics being used by fraudulent claimants. Some of the tips picked up included

doing more checks on dates of birth, NI numbers, using Google to establish the provenance of photographs and being more robust with claimants' solicitors.

Fraud Response Plan and Annual Governance Statement Action Plan Update

24. We have reviewed the implementation of actions within the Fraud Response Plan and provide an update on progress for each in **Appendix C**.
25. We have reviewed the Council's Counter Fraud and Counter Corruption Policy and Strategy and Fraud Response Plan. Revisions to the Fraud Response Plan were reported to the Governance & Ethics Committee in July 2018 and only minor amendment was needed to the Counter Fraud and Counter Corruption Policy and Strategy; to make reference to the Governance and Ethics Committee Chairman. These documents have been updated and refreshed on the intranet.

Other Options Considered

26. The Audit Section is working to the Public Sector Internal Audit Standards and the contents of the Fraud Response 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/s for Recommendation/s

27. To report the progress made by the Head of Internal Audit in undertaking counter fraud work and to endorse the policy statement for preventing facilitation of tax evasion to protect the Council.

Statutory and Policy Implications

28. 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

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

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

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 2017/18 was presented to the Governance & Ethics Committee in June 2018 and identified that the value of detected or prevented fraud in that year amounted to approximately £228,000.

RECOMMENDATIONS

- 1) The draft policy statement on the 'Facilitation of Tax Evasion' is endorsed and recommended to the Policy Committee for adoption
- 2) Committee considers whether it wishes to see any additional actions put in place to tackle fraud or to receive further reports on the actions already being taken within the Council.

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For any enquiries about this report please contact:

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Human Resources Comments (GME 06/12/2018)

29. The prevention of fraud is a priority issue for the Council and requires a joined up approach in the recruitment and development of suitable staff engaged in areas where this is an identifiable risk. Stringent adherence to the various policies and procedures in place to avoid such episodes occurring is an expectation and management requirement. In the eventuality of breaches occurring, these will be followed up with robust action using the Council's agreed relevant employment procedures where there is an individual or management failing to effectively identify, manage and mitigate against any such risks.

Constitutional Comments (SLB 05/12/2018)

30. Governance and Ethics Committee is the appropriate body to consider the content of this report. If Committee resolves that any actions are required it must be satisfied that such actions are within the Committee's terms of reference.

Financial Comments [RWK 05/12/2018]

31. 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