

10 January 2024**Agenda Item: 7****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 2023/24.

Information

2. Counter-fraud work has continued to focus on key risk areas during 2023/24 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) – matches from the 2022-23 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). This process seeks to identify potential issues such as:
 - duplicate creditor payments, for instance where there is a duplicate payment record by amount and creditor reference
 - payments to pensioners after they have deceased
 - blue badges and concessionary passes which have not been cancelled after a person is deceased or duplicate badges and passes for the same person

Not all of the matches are indicative of fraud or error, however, the outcomes for 2022-23 with a comparison to the 2020-22 outcomes are shown below in **Table 1**.

Table 1 – Headline Categories of Potential Fraud/Error - 2020-22 and 2022-23

Category	2020-22	2022-23
Pension/Payroll matches	No reported outcomes from 1,668 matches	1 case opened from 917 cases. No reported outcomes yet.
Trade Creditors	£81,640 reported outcome from 7,639 matches	£32,609 reported outcomes from 5,881 matches identified.
Total	£81,640	£32,609
Other significant estimated results		
Blue Badges cancelled or withdrawn (no's)	£276,000 ¹ reported outcomes from 480 matches	All 2,193 cases processed. £430,300 ¹ reported outcomes from 662 cases.
Concessionary Travel Passes Cancelled (no's)	£44,136 ² reported from 1,839 matches	All 2,641 matches processed. £56,203 ² reported outcomes from 1,815 cases.
Residents Parking Permits	11 cases completed. No reported outcomes	All 12 cases opened and processed. No reported outcomes.
¹ Number of blue badges cancelled due to person deceased, multiplied by £650 (£595 in 2021-22) 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 identified by NFI and cancelled due to person deceased, multiplied by £30.97 (£24 in 2021-22), based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme and the duration of fraudulent pass misuse during financial year 2022-23.		

5. In relation to trade creditors, 5,246 matches related to duplicate records by amount and creditor reference. A decision was made to only review transactions where the gross transaction value was £5,000 or above. Therefore 1,160 of these cases were subject to further review. Six payments totalling £32,609 were identified as duplicate payments and five of these related to Transport Section. Most of these related to invoices posted via the interface from the Transport system (Trapeze) and then submitted again through the non-purchase order route in error. The remaining duplicate transaction was paid twice in error through Corporate Procurement due to two purchase orders being raised against different vendor numbers. All duplicate payments have since been refunded. To address the recurring issues, Accounts Payable are holding a workshop with the Transport Team to go through the full end-to-end procedures to ensure further duplicates are avoided. In addition, as identified in our action plan, Internal Audit are working with the Business Service Centre to explore and develop in-house options to identify duplicate payments.
6. Blue Badge matches consisted of 1,467 deceased notifications, 49 potential duplicate badges and 676 where there was more than one application with a matching phone number or email address. The latter may be due to a third-party organisation assisting multiple applicants to apply for the badge, using their phone number/email address as the contact details. The NFI process identified 662 badges that had not been notified as deceased. These badges have now been cancelled and the team is proactive in using the Tell Us Once system to identify deceased notification to cross-reference to the blue badges scheme.

Counter-fraud E-learning and Other Activities

7. In 2021 we refreshed our fraud e-learning training. Since then, we have continued to monitor the completion of the e-learning and 423 staff have undertaken the training. We plan to review the training material once again to incorporate evolving fraud risks and will consider whether the training needs to be mandatory for finance staff, budget holders and those involved in purchasing, payments or any other financial activity.
8. The e-learning was again promoted to Team Managers and staff through Team Talk articles as part of International Fraud Awareness Week. This ran from 12 – 18 November 2023 and was publicised on the council's intranet from the end of October till the end of 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. We have also sent out a separate article to schools which provides resources, training and general fraud awareness material, especially in relation to mandates, to ensure they have the tools to prevent and detect fraud.
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 need to keep software up to date to guard against potential computer viruses and vulnerabilities.
10. As reported in our Annual Fraud Report in July, we had an action to carry out a piece of pro-active work in relation to the threat of blue badge fraud. This work is currently underway and we are expecting to issue a draft report imminently. Once a final report is issued, this will be sent to Members of the G&E Committee for information.
11. 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 2022/23, although the team have been active in the successful defence of claims made against the council and generated estimated savings of £2.07m during 2022/23 through such work. A further update on the current financial year will be provided in the next Annual Fraud Report.
12. Internal Audit continues to be involved in fraud investigation activities and are currently involved in two 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 summarised to all members in the Annual Fraud Report.
13. During the year there have been three fraud cases taken to court. The Council is pursuing recovery against these individuals. Two of these involved NCC staff and one involved a school employee. Due to the nature of these frauds, a review of controls was undertaken in the teams concerned and we are now proactively identifying risks in operational areas through engagement with Managers.
14. In August 2023, the National Fraud Intelligence Bureau (NFIB) reported that 35% of reports of cyber-crime related to business email compromise (BEC) and the most common type of BEC was invoice fraud. Some schools have been the victim of BEC whereby fraudsters have

infiltrated their systems and amended payee details of invoices to known suppliers in order to divert funds. In respect of this, Internal Audit have been proactive to make schools aware of this type of crime including hacking of social media and email accounts and have advised on preventative measures.

15. In the year, an additional response to the NFIB has been a review of controls in relation to mandate fraud. We identified robust controls in place within Accounts Payable Team which have prevented several fraud attempts against the Council during the past few years. However, a report was issued (June 2023) to management outlining further risks in Schools due to different procedures undertaken. Recommended actions were agreed with Schools' Finance Team to continue to raise awareness of this type of fraud and others and share best practice to prevent further losses. Processes are now in place to share advice and alerts with schools on a regular basis. This awareness has helped to prevent several recent fraud attempts where schools have been subject to phishing attacks, scam invoices and purchase card frauds. Recognition of potential frauds has prevented losses in schools of £56,618 since April 2023. Schools' Finance continue to promptly alert schools when there are new and emerging fraud attempts.
16. Finally, during the year, a review of counter-fraud procedures was carried out in relation to Computer equipment replacement program (CERP). As a result, recommendations were made and agreed actions have been implemented or are in progress to enhance controls in this area.

Fighting Fraud and Corruption Locally (FFCL) Strategy and Checklist

17. 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.
18. 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 Chairman 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.

19. A member of the Audit Team recently completed the Certificate in Fraud Risk Management course run by the Chartered Institute of Public Finance and Accountancy (CIPFA). This was to further develop Internal Audit skills to proficiently identify and manage fraud risks within the Council. The objective was to develop more effective fraud risk assessment processes which in turn will help to identify key fraud risk areas to guide the Audit Plan. As a result of this, Internal Audit are in the process of engaging with departments to widen understanding of fraud

risks, involving a wider range of stakeholders. A questionnaire has been issued to Group Managers and it is anticipated that this 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.

20. We have updated the Counter Fraud Risk Assessment for 2023 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 procurement and mandate fraud, adult social care abuse of payments, pension fund fraud and cyber-crime.
21. Nationally, increased numbers of people have also been recorded to the enhanced internal fraud database maintained by Cifas (not-for-profit fraud prevention membership organisation). This includes increased numbers of people 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.
22. 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. This was introduced by the BSC last year and has been extended to include identity verification for recruitment-based DBS checks. The next phase will be to rollout DIVP to all internal NCC business units undertaking DBS checks. Work is also underway with the supplier to integrate DIVP functionality into the pre-employment solution.
23. 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.
24. 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.

Counter Fraud Networks and National Picture

25. 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.
26. The Council's Counter-Fraud & Counter-Corruption Strategy and Fraud Response Plan are reviewed annually and the latest versions are available on the intranet and NCC website. A further update will be carried out in 2023-2024 as part of the annual report.

27. NCC have recently been consulted in relation to the new Economic Crime and Corporate Transparency Act 2023 which was granted Royal Assent on 26th October 2023. It contains a new failure to prevent fraud corporate criminal offence which will have implications for NCC and others. We are awaiting further Government guidance on reasonable fraud prevention procedures. Legal Services will be considering the legal implications of this and a further update will be provided to Members as part of the annual fraud report.

Counter Fraud Action Plan Progress

28. We have reviewed the implementation of actions within the Counter-Fraud Action Plan which was reported to the Governance and Ethics Committee in July 2023 and all actions have been addressed. 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
Pro-active work with the Travel & Transport team to respond to the threat of Blue Badge Fraud, including an audit of the notification process (Tell Us Once).	In progress.
Review progress with actions from the FFCL self-assessment and address outstanding actions.	Completed November 2023
The Business Service Centre to work with Internal Audit to develop additional in-house options to identify duplicate payments using Excel and IDEA Audit software.	March 2024

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 2021/22 was presented to the Governance & Ethics Committee in July 2022 and identified that the value of detected or prevented fraud in that year amounted to approximately £671,000.

RECOMMENDATION

1) Members note the contents of the report.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement

For any enquiries about this report please contact:

Simon Lacey

Chief Internal Auditor

Constitutional Comments (EKH 04/12/2023)

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

Financial Comments (SES – 06/12/2023)

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