Internal Audit and Risk Management Service

Corporate Fraud Risk Assessment

March 2024

Contents

1   Background

1.1   Northumberland County Council has committed to providing best value for money to its residents and businesses. As a local authority we must ensure that funds are spent in a way that best serves the people of Northumberland.

1.2   The Section 151 officer has a statutory responsibility to ensure the proper administration of the County Council's financial affairs and to ensure the Council's systems and actions do not give rise to illegal activity or maladministration. In administering our responsibilities, we have a duty to govern, acknowledge, prevent, pursue, and protect against fraud and corruption, both internally and externally.

1.3   The Chartered Institute of Public Finance and Accountancy (CIPFA) has published a 'Code of Practice on Managing the Risk of Fraud and Corruption'. As part of the 'identify the fraud and corruption risks' principle of the code of practice, the guidance recommends that 'fraud risks are routinely considered as part of the organisation's risk management arrangements.'

1.4   The Local Government Association, supported by the Joint Fraud Taskforce issued the 'Fighting Fraud and Corruption Locally – A strategy for the 2020's' report in 2020. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities. The strategy details a number of nationally identified fraud risk areas and identifies key themes, for local authorities to use to ensure that their counter fraud response is comprehensive and effective. These are known as the six Cs:
- Culture
- Capability
- Capacity
- Competence
- Communication
- Collaboration

1.5   This Corporate Fraud Risk Assessment has been undertaken to better understand the identified fraud risks and assess the likelihood of fraud risk areas specific to Northumberland County Council, reflecting the existing processes and controls already in place. The assessment will then be used as a source of information in Internal Audit's planning and to help target our fraud response and management of work and resources, to create a work plan for our proactive counter-fraud work.

1.6   The Corporate Fraud Team consists of 5 FTE, which is currently supplemented with a fixed term resource supporting the Single Person Discount project.   With limited resource it is important that we use this in the most efficient, cost-effective way, by targeting the areas within NCC that pose the biggest financial risk through fraud as well as considering areas that cause substantial risk of harm to our residents.

2 Identification and Assessment of risks

2.1 Using the 'Fighting Fraud and Corruption Locally' report, supplemented with information from a number of additional bodies (including CIPFA and Tenancy Fraud Forum), the following fraud risk areas have been identified nationally:

- Housing Tenancy fraud
- Procurement fraud
- Payroll fraud
- Council Tax fraud
- Blue Badge fraud
- Grant fraud
- Pension fraud
- Schools
- Social Care fraud
- Identity fraud
- Insurance fraud
- Insider Threat
- Cyber Crime / Scam
- Concessionary Fares fraud

2.2 An assessment of these identified risk areas has been undertaken, considering the risk of likelihood and the risk of impact within Northumberland County Council. Factors considered when undertaking the assessment include:

Likelihood of risk occurring

- How likely is it that, the intelligence is accurate and reliable, and, therefore, likely to be true?
- Does the fraud type represent a simple (and, therefore, easy to commit) offence, or a complex one, that would be difficult to commit without considerable planning and preparation?

Potential impact of risk occurring

- The financial impact - If the intelligence is true, what are the financial implications? It may be a continuing loss from regular payments or one of large sums, high cost in repairs and maintenance or simply clean up.
- The operational impact - How will Northumberland County Council be affected if the fraud is occurring?
- The effect to residents – How will our residents be effected if this fraud is occurring, what is the reputational damage of not pursuing this fraud type?

2.3 Utilising this methodology, fraud risk areas have been assessed in conjunction with relevant service areas across the County Council, to determine a risk level (red, amber, green). Risk levels have been determined in accordance with the following table.

High	Medium Risk	High Risk	High Risk
Medium	Low Risk	Medium Risk	High Risk
Low	Low Risk	Low Risk	Medium Risk
	Low	Medium	High

Potential Impact

Likelihood of Risk Occurring

3   Risk Analysis

3.1   The outcomes of the fraud risk analysis undertaken is detailed in the table below and includes those measures already in place across the County Council to mitigate risk areas and suggested future activity.

Fraud Type & RAG rating	Description of Risk	Existing Measures / Controls	Suggested Activity
Housing tenancy fraud **(Red)**	Housing tenancy related fraud is a high risk area and includes risks relating to: - Right to Buy – fraudulent applications due to high discounts offered, loss of asset and rental income.	The Council has a number of measures and controls in place to guard against housing tenancy related frauds. The Corporate Fraud team undertake due diligence work in 100% of NCC RTB applications and also work in partnership with Bernicia and Karbon Homes.	Further work could be undertaken by the Corporate Fraud team, to undertaken post-sale checks for details of any resale / transfer date. There is also the possibility to explore working with additional Registered Social Landlords (RSLs).
	- Fraudulent Housing applications	Homefinder applications are assessed and prioritised by the Homefinder team before being added to the register allowing applicants to bid for properties. Bid matching is undertaken, with proof of identification and circumstances confirmed. In person visit is undertaken by a Housing officer to the new home when tenancy agreed. Periodic verification with applicants, continued status on register reviewed.	Enhanced verification of current circumstances of applicants and a proactive review of the Homefinder housing waiting list. Build partnership working with RSLs to enhance fraud resource. Continue to run and build North-East Tenancy Fraud Forum and maintain active membership of the national Tenancy Fraud Forum.
	- Fraudulent applications for 'succession' and 'assignment'. (Where an occupant assumes a tenancy of a deceased tenant, or of a tenant who is still in occupation but may, for example, plan to move into supported accommodation.)	NCC currently have guidance and application form for succession and assignment however given this is widely acknowledged nationally as one of the highest fraud risk areas in social housing it is felt our current process could be improved by following best practice promoted by other local authorities.	Implement new robust application for succession and assignment, with Corporate Fraud team undertaking verification of applications. For assignments - undertake additional property visits to ensure tenant is still resident.

Fraud Type & RAG rating	Description of Risk	Existing Measures / Controls	Suggested Activity
	- Sublet and Abandoned properties	Reports and suspicions of abandonment and sublet are investigated by housing officers and discussed with the tenant and/or notices issued. Current NFI data matching undertaken includes matching of housing records against - HMRC Household composition, DWP deceased, state benefits Matching of Right to buy records against - housing tenants and benefits. Matching of housing waiting list against - housing tenants, housing benefit, waiting lists with other councils, DWP deceased data.	A new process is in the process of being implemented to involve the Corporate Fraud team in all reports and suspicions of sublet and abandonment, for joint approach wherever abandonment or sub-let is suspected. Proactive data matching may be undertaken by the Corporate Fraud team to identify potential addresses. Corporate Fraud team to make use of POSHFA (Prevention of Social Housing Fraud Act) authorised officer powers to investigate suspected cases.
Council Tax fraud (Red)	Council Tax fraud is common, with discounts falsely claimed. This includes: - Empty & Exempt Properties - Class F (liable party deceased probate not granted) - Empty homes (although subject to full charge, this has a negative effect on housing needs & ASB) - Student – not in or left education - Carers – no longer a carer, person moved out - Severe Mental Impairment – moved out, no longer receiving qualifying benefit - Single Person Discount - Council tax Reduction (CTR) Fraudulent claims may also be received in relation to Non-	A range of controls are in place to help ensure that only valid applications are received. These controls include the verification of applications and requiring appropriate evidence of qualifying criteria, with visits periodically taken to check, review and monitor the (ongoing) status of discounts / exemptions. In respect of SPD, the Corporate Fraud team launched a specific 2-year project in October 2022 to proactively review all households in receipt of SPD. Corporate Fraud team works jointly with SFIS (Single Fraud Investigation Service) and there is a close working relationship between internal teams. Staff are fraud aware and regularly send referrals of suspicion to the Corporate Fraud team. The Council has access to a number of data sources and suspicions of fraud are referred to the Corporate Fraud team and prioritised as urgent cases.	In addition to controls in place, some proactive data match exercises are proposed, to help ensure ongoing eligibility of exemptions / discounts, particularly in the case of all Class F liabilities and potentially a pilot exercise with CTR claims. The Internal Audit team include reviews of Council Tax, and Non-Domestic Rates as part of annual reviews of the Council's key financial systems. These reviews will continue to include arrangements in place for the detection / prevention of fraud / error. Reactive referrals will continue to be investigated, particularly those arising from internal referrals.

Fraud Type & RAG rating	Description of Risk	Existing Measures / Controls	Suggested Activity
	Domestic Rates (business rates) relief.	Current NFI data matching includes matching of housing benefit and council tax records against - DWP deceased data, taxi driver data, student loans, housing benefit in other councils, HMRC property ownership / earnings / capital / household composition / pensions, Right to buy, housing tenants, state benefits.	
Insurance **(Red)**	False or inflated claims against NCC including slips and trips	Our insurers, Zurich, manage our claims and have a fraud investigation process which they follow. NCC's Insurance team are fraud risk aware and utilise a number of methods to validate information included in claims received. Any claims litigated or identified as high-risk are referred to the Corporate Fraud team.	Help ensure that inspections continue to be undertaken by trained staff, with accurate and detailed records maintained, to ensure any issues are actioned quickly. Further awareness raising by the Corporate Fraud team, to ensure that the process for referrals is understood by all staff in the Insurance team and that this is regularly reviewed.
Adult Social Care **(Red)**	Fraud loss can occur through situations including: - Overstatement of needs through false declaration, multiple claims across authorities. - Misuse of Direct Payments scheme, (e.g. assessed care package is not provided, with abuse by third party carer, family or organisation) - Bank Mandate fraud in respect of social care providers (fraudulent notification of a change in bank account details).	All applications are assessed by a case worker, with a number of controls in place to help ensure that care needs are carefully assessed and any financial contribution is carefully calculated. Financial assessors have access to data systems to help confirm stated income and evidence is sought to confirm financial eligibility. All Direct Payments are subject to regular audit to ensure continued suitability. Any changes in circumstances are subsequently checked and claims monitored. Staff have attended Cybercrime training. A manager must approve any change in bank account requests and only following direct verified contact with the provider to verify change.	Internal Audit has reviews planned in higher risk areas, including Direct Payments. In addition to controls in place, the Corporate Fraud team plan to work with the service area to help enhance the financial assessment process. The Corporate Fraud team are also providing ongoing support in specific cases.

Fraud Type & RAG rating	Description of Risk	Existing Measures / Controls	Suggested Activity
Cyber-crime / scams **(Red)**	Nationally recognised as the largest evolving threat across all organisations, cyber-crime is an evolving risk. Local authorities are often targeted and cyber crime can include: - Ransomware - Hacking - Phishing - Malware - Bank Mandate fraud - Falsification of invoices - Spoofing - Denial of service attacks.	A number of measures are in place to help guard against this risk. This area has been raised as a corporate level risk and has a number of identified controls. These controls are subject to regular review by external bodies and through Internal Audit's annual coverage of Information Technology arrangements. In the case of specific aspects of this risk, controls are in place to help ensure that only valid invoices are approved for payment and staff attended cybercrime training during 2023. A corporate training / awareness programme for staff is also ongoing.	Controls will be continuously reviewed and improved as necessary. Any fraud alerts received by the Corporate Fraud team are brought to the attention of relevant staff. The Corporate Fraud team will be undertaking a fraud awareness campaign during 2024/25 and the risks of cyber security will be incorporated, to help ensure the prevention and continued reporting of any attacks,
Grant fraud **(Amber)**	Risks in respect of grant funding awarded by the Council can include instances where: - agreed work is not carried out - funds are diverted - ineligibility not declared - fraudulent applications	Agreed criteria and controls for ensuring eligibility are in place for grant funding schemes. Controls are subject to periodic review by Internal Audit.	Continued Internal Audit review and input into arrangements for new grant funding schemes. A comprehensive register of all grant funding schemes across the Council to be developed.
Blue Badge Scheme misuse **(Amber)**	Blue Badge fraud can include instances of counterfeit / forged / altered badges, and / or use of a blue badge by a non blue badge holder (e.g. friend / family member, or sold / stolen badges.)	Measures are in place to control the issue of Blue Badges to applicants. Civil Enforcement Officers (CEOs) collate evidence of any suspected Blue Badge fraud and send to the Corporate Fraud team for investigation, with Blue Badges seized where possible. Current NFI data matching includes matching our blue badge records.	Criminal sanctions will be considered for misuse where no Penalty Charge Notice issued. Corporate Fraud warning issued and monitoring of Blue Badge misuse in addition to PCN (Penalty Charge Notices). The Corporate Fraud team will undertake days of action in conjunction with Civil Enforcement Officers in order to help raise awareness and deter misuse.

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Bus Pass / Concessionary Fares **(Amber)**	Similarly to the risk of Blue Badge fraud, this can include instances of counterfeit / forged / altered passes, and / or misuse of a pass by a third party.	New payment systems on buses means that drivers no longer need to see or check the bus pass. Passengers can scan the pass with the driver performing a check of the pass and photograph. Current NFI data matching includes matching our concessionary fares records.	Corporate Fraud to develop a proforma to capture all relevant information needed to investigate any seized passes. Fraud awareness programme being developed by the Corporate Fraud team will also include advice and reporting methods for any suspicions of misuse to be reported to the Corporate Fraud team.
Schools **(Amber)**	There are a number of risks associated with our schools. Risks are exacerbated by the fact that schools are satellite establishments and the geographical scale of Northumberland.	In addition to controls in place to manage schools-related risks, and external inspection regimes, the Internal Audit team undertakes work with schools on an annual basis. The Schools' Financial Value Standard (SFVS) is a mandatory process for Governing Bodies to demonstrate that secure financial management and governance processes are in place. Internal Audit co-ordinate this process and receive and review all SFVS submissions. SFVS submissions are used as a source of information when Internal Audit plans and undertakes school thematic reviews as part of each year's Internal Audit Plan. During 2023, Internal Audit and the Corporate Fraud team have worked with central services and schools, to develop and improve systems and processes relating to various aspects of the control framework for our schools.	Work will continue as needed with Corporate Fraud and Internal Audit working with central services and schools to continuously improve systems and processes. Schools will be made aware of and reminded of a free Schools Fraud Health Check, to use it for information and as a self-assessment to identify their risks, strengths, and weakness regarding fraud. The Corporate Fraud team will also be developing fraud awareness training for school governors, head teachers and business managers. The Corporate Fraud team will share national fraud alerts with all schools via the ECourier service and will continue to support annual school allocations and investigate any reports of potentially fraudulent applications.
Procurement fraud **(Amber)**	This is the largest area of spending within local authorities and can be difficult to detect.	The Council has in place robust Contract Procedure Rules to control processes relating to procurement and mitigate risk. The Council's Procurement service work closely with commissioning departments to provide	Signpost and recommend the Competition and Markets Authority (CMA) free webinars to all staff involved in procurement, tenders and contracts.

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	Risks of procurement fraud can include: - flawed tendering issues - double invoicing - conflicts of interest - collusion - cartels / bid rigging - counterfeit products - non delivery of contract	guidance to help ensure procurement activity is undertaken correctly and in accordance with guidance and the law. Aspects of procurement are subject to annual review by Internal Audit, and investigations are undertaken in conjunction with the Corporate Fraud team where there are suspicions of fraud / error. As part of the Council's BEST programme, the 'Best in Commissioning' workstream board has representation from the Corporate Fraud team. Current NFI data matching includes matching of our procurement records.	Contracting arrangements in place relating to non-collusion and non-canvassing will be reviewed to ensure best practice, in respect of bid rigging / cartel activity.
Payroll Fraud **(Amber)**	Risks relating to payroll will primarily relate to payments not being made to the correct person, being the incorrect amount or being made at the incorrect time. This may include: - false employees - duplicate employment - overstated payments (e.g. expenses / overtime) - bank mandate fraud - payments continuing to leavers	Various controls are in place to manage payroll-related risks. These controls are subject to annual review by Internal Audit. Payroll staff attended cybercrime training during 2023 and specific procedures are in place in respect of the changing of bank account details of employees. Work has been undertaken during 2023/24 to improve controls and processes relating to authorisation of overtime / expense claims. Current NFI data matching includes matching our payroll records against payroll in other organisations for duplicate employment and to creditors.	An improved system to help ensure a consistent approach to staff declaration of interest is in the process of being implemented, with support from Internal Audit and Corporate Fraud. Training will be developed for all staff and managers to explain their responsibility to check pay / budget information is correct, to query unexpected payments/values and notify any overpayments immediately (with the consequences of not doing so). Consideration will also be given to incorporate this into the staff and manager induction courses

Fraud Type & RAG rating	Description of Risk	Existing Measures / Controls	Suggested Activity
Insider Threat **(Amber)**	The risk of fraud committed by employees is faced by the Council, like any organisation. Whilst the likelihood is not frequent the Council is aware of the cost-of-living crisis and the potential impact on employees. Potential frauds relating to employees may include: - abuse of flexi time - abuse of sickness absence - theft - corruption - misuse of assets / equipment - overstating expenses / overtime claims - abuse of position by agency staff	The Council has a number of policies in place to mitigate this risk. The Human Resources service provide guidance and policies surrounding all aspects of employment, supporting management across the Council. Financial advice and support is also available for all staff. The Council's Anti Fraud, Bribery and Corruption Policy has been refreshed during 2023/24 and there are a number of reporting channels available for staff to report concerns, with reminders issued to staff. Aspects of insider threat risks are subject to annual review by Internal Audit, and investigations are undertaken in conjunction with the Corporate Fraud team where there are suspicions of fraud / error. Current NFI data matching includes matching our employment records. Agency staff are only used as a last resort of for short term cover.	Fraud awareness training to be developed and incorporated in staff induction and rolled out across all NCC staff as part of the programme of required learning. Consideration is being given as to if / how additional controls / monitoring may be implemented in some of the Council's systems. Any referrals which allege, fraud, bribery or corruption, are investigated by the Corporate Fraud team and Internal Audit.
Identity **(Green)**	As an employer, the Council faces a risk relating to recruitment. Applicants may give misleading or false information in an attempt to obtain employment for which they are not suitably qualified. Applications may also be received from individuals who do not have the right to work in the UK. This may include bogus identification documents, fake	Controls are in place across the Council to mitigate this fraud risk area. There are recruitment processes in place, including checks with the Disclosure and Barring Service (DBS) where necessary, including enhanced DBS checks for relevant posts / staff. Procedures are in place and understood for the verification of applications and qualifications and the following of guidelines for verifying applicants' right to work in the UK.	The Corporate Fraud team will be developing a fraud awareness programme, and this will include advice on ensuring best practice in identity checking. The costs and potential benefit of subscribing to a national fraud database will be evaluated.

Fraud Type & RAG rating	Description of Risk	Existing Measures / Controls	Suggested Activity
	qualifications and / or employment history.

The risk of identity fraud is also a risk in relation to a number of services provided by the Council with a financial benefit to be gained by impersonating another person. This may include housing, benefits, grants, procurement, and pensions. | A revised recruitment system has recently been implemented within the Council. This was reviewed by Internal Audit prior to implementation, and this area is subject to regular review as part of Internal Audit's plan of work.

In respect of wider services, as detailed within this risk assessment, services have controls in place to verify and prove identification. | |
| **Pension fraud**

(Green) | Pension related fraud includes instances where recipients of pension payments fail to provide notification of changes in circumstances, or where notifications of deceased pensioners are not provided.

Pensions are administered by South Tyneside Council on the Council's behalf. | Controls in place to mitigate risks are controlled by South Tyneside Council.

Data matching undertaken as part of National Fraud Initiative includes the matching of pension recipient data.

Should a pension payment not be able to be processed, due to an account being suspended or closed, the payment is returned, and future payments are suspended pending confirmation of ongoing entitlement. | The possibility of, and expected benefits of, further data matching to be explored.

The Corporate Fraud team are also currently considering how they may be able to support the Payroll Team with some specific, recommended third-party and independent checks. |