

**Open Report on behalf of Pete Moore, Executive Director  
Resources and Community Safety**

Report to:	<b>Audit Committee</b>
Date:	<b>13 June 2011</b>
Subject:	<b>Counter Fraud Annual Report 2010/11</b>

**Summary:**

The purpose of this report is to review the delivery of our 2010/11 Counter Fraud Work Plan and to provide you with information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption. This report will outline the investigative and proactive work we have completed over the year and the outcomes achieved. The Council has a gross revenue budget of £1,112m and a capital spend of £167.1m and it currently employs just over 18,000 staff within the Council and in our schools. Overall our counter fraud team has helped identify over £800k of recovery potential due to fraud or error.

**Recommendation(s):**

That the Audit Committee consider the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made during 2010/11 to implement policy.

**Background**

1. Dedicated resources for proactive work (detection & prevention) and investigation is something recommended by the National Fraud Authority (NFA) and very recently supported and encouraged by Central Government. The NFA reports that most fraud within local government goes undetected – we want to build on our recent successes and reduce fraud and loss to an absolute minimum within this Council.
2. The Council's commitment to identifying and reducing fraud, error and waste is as strong as ever and is particularly important at this time of change and increased fraud risk.
3. With its small team of fraud specialists, Lincolnshire County Council is in a better position than many local authorities to respond to the recommendations published by the NFA. However, most of our resource currently goes into investigation but we need to place just as much

emphasis on fraud prevention, detection and recovery of loss to achieve the savings potential for an Authority this size.

4. Workforce Change has provided the opportunity for us to review how we utilise our resources within the Section. Consequently the due diligence audit work on key financial systems will transfer to the Counter Fraud and Investigation team from July 2011. This allows us to maximise the use of our resources, develop innovative ways of tackling fraud and increase the effectiveness of our due diligence responsibilities.
5. This report shows the benefits of having a team of accredited fraud specialists: effective investigation, appropriate outcomes and significant recovery potential.

### **Investigations into Suspected Fraud 2010/2011**

6. We received 17 fraud referrals during 2010/11 compared with 19 and 24 respectively in the previous two years. Although this is a slight drop in the number of referrals, the fraud investigations over the last year have been more significant in value and complexity. It is difficult to identify with any certainty the reasons for the gradual reduction in fraud referrals year on year, but we feel a contributory factor may well be that of deterrence. We publicise our outcomes, the Council takes a tough zero tolerance stance against fraud and corruption which is becoming more widely known, we work closely with the Lincolnshire Police and the Counter Fraud & Investigations Team is achieving more success.
7. An encouraging fact to note is that two of the three most serious of fraud cases last year resulted out of whistleblowing disclosures and the County Council's Internal Auditors identified the other fraud during a routine audit.
8. We have completed two large cases in year which we have also referred to the Police – one case has reached charging stage and a court hearing is pending and the other, which is more complex, is still under investigation. Our work has ensured that we are in a strong position to recover a significant amount of the fraud loss – see point 13 for details of expected recoveries.
9. In year we have had three successful prosecutions:
  - Former administrator at Welbourn Primary School admitted theft, attempted theft and 3 counts of forgery and was convicted in October 2010. She received a 2 year community order. We are recovering the £33k loss through a confiscation order and our insurers.
  - In September 2010 a former care home manager admitted 19 charges of theft from vulnerable adults. She was sentenced in October 2010 to 5 months imprisonment. The home owners have since repaid the residents' lost savings (£10k plus interest).

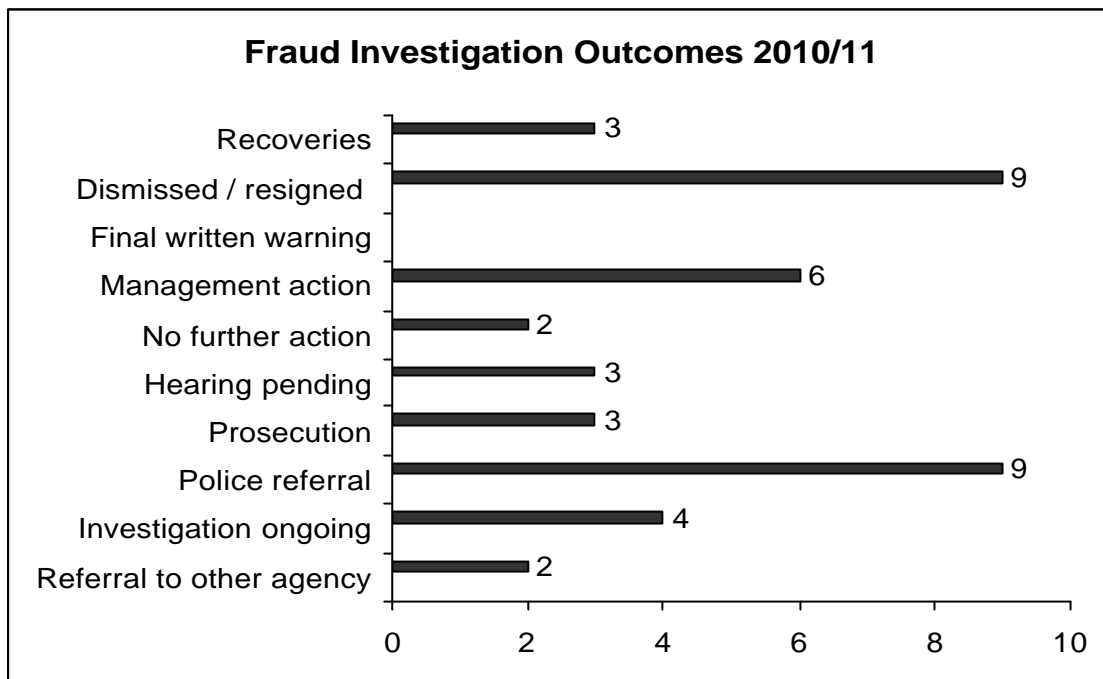
- In March 2010 a recipient of a £4k grant was found guilty of false accounting and was sentenced to 60 hours community service order (unpaid work).

10. The table below shows the type of fraud uncovered in our investigations over the last four financial years.

Description	No. of Cases	No. of Cases	No. of Cases	No. of Cases
	2007/2008	2008/2009	2009/2010	2010/11
Award of Contracts	3	-	1	1
Abuse of Position	3	1	4	3
Cheque Fraud	1	2	-	1
Contractor Fraud	1	2	-	-
VAT fraud	-	-	1	-
Direct Payments	-	2	-	-
Expenses	2	1	-	1
Fundraising	1	-	-	-
False Invoices	3	-	-	1
False Claims	3	-	-	1
Grants (unauthorised use)	-	1	2	1
Insurance Fraud	1	1	-	1
Loan Irregularities	1	-	-	-
Misuse of Assets	1	2	2	1
Procurement	1	-	2	2
Project Expenses	1	-	-	-
School Fund / Budget Share	2	-	1	-
Service User Finances	2	9	6	2
Timesheet / Abuse of Time	4	6	3	1
Imprest (Cash)	-	-	-	2
Payroll	-	-	-	3

11. The above analysis shows that there is no one type of fraud that is significantly more common than any other in the year 2010/11, although there has been fraudulent activity in two new areas – payroll and cash (petty cash imprest). There are three areas over the last four years which appear more prone to fraud or attempted fraud: timesheet / abuse of time, service user finances and abuse of position.

12. Outcomes relating to the fraud cases completed / ongoing during 2010/11:



13. **Redress**

Total recoveries in the last year 2010/11 - **£30,160**:

- £13k (final overpayment recoveries through 08/09 NFI)
- £760 (payroll fraud)
- £11k (service user finances)
- £5.4k (grant)

Pending recoveries from cases completed in 2010/11:

- 4 cases – expected recoveries in the region of **£877,000**

14. Of the 17 cases of suspected fraud referred for investigation during 2010/11, 12 (70%) were internal cases and 5 (30%) were perpetrated by individuals / organisations external to the Council. The highest value fraud we investigated last year was an external case. This trend is consistent with that experienced in the previous year.

15. We issue action plans to help managers improve Council systems and procedures to reduce the risk of fraud in the future. We also rely on the diligence of our staff, partners and the general public to identify and report, at the earliest opportunity, any anomalies or suspicions so that we can act quickly to investigate and stop any significant loss to the public purse.

16. Last year we revised the Council's Whistleblowing Policy to better explain our arrangements for safely reporting wrongdoing – this mechanism remains an effective tool in the fight against fraud (and addressing other serious risks). We also reached an agreement with all our District Councils to have one dedicated whistleblowing hotline for Lincolnshire's Local Authorities (0800 0853716) – this is operated by the County Council's Investigations Team and disclosures are either referred on to the appropriate investigating authority / team or investigated in-house.

### **Proactive Work – 2010/11**

17. At the beginning of the year we re-launched our Counter Fraud Policy, produced a Fraud Response Plan and issued new leaflets which we jointly developed with our District Council colleagues. In the Autumn of 2010 we issued a significantly revised Whistleblowing Policy and supplemented this with flowcharts (for the Council and Schools) to show, at a glance, how we will respond to genuine concerns reported through this mechanism. In 2011, we aim to develop whistleblowing leaflets to support the new policy and ensure maximum distribution to increase awareness and to make our arrangements as effective as we possibly can.
18. The three main areas of proactive work carried out in 2010/11 involve:
  - fraud proofing contracts, service level agreements and key policies (fieldwork completed)
  - review of imprest accounts
  - reviewing / investigating the 2010/11 National Fraud Initiative data matches for Lincolnshire County Council
19. Our main focus last year has been on investigations and consequently work is still ongoing on the three proactive areas noted above. What we can report is that one of our investigators identified a fraud during one of the proactive exercises and this is currently under investigation – this shows the benefits of properly targeted proactive work and is an area which the team will be developing over the coming year.
20. We have considered fraud risks at the Lincolnshire Audit Committee Forum, provided information on local and national local authority frauds and updated the group on activity to combat fraud in Lincolnshire. We have also met with District Council colleagues to revisit our fraud risks and identify areas for joint proactive work and raising fraud awareness.
21. From July 2011, the restructured and realigned team will allow sustained proactive counter fraud activity throughout the year to meet the expectations of the National Fraud Authority, Central Government and Lincolnshire residents. We will:
  - increase our fraud prevention and detection activity (including the development of routine quarterly analysis and testing in key fraud risk areas)

- look for innovative ways of combining some of our due diligence responsibilities with our counter fraud proactive work
- improve our fraud measurement and intelligence sharing
- identify savings (by reducing losses through fraud, error and waste)
- increase our fraud awareness activities

## **Conclusion**

22. The national spot light is now firmly on public sector fraud – our work, particularly over the last year, has shown that Lincolnshire is just as exposed to the risk of fraud as other counties in the UK. Our investigations have identified large fraud losses spanning a number of years but our anticipated recoveries are also significant and will be redirected back into public services.
23. Although our proactive work has been limited in 2010/11 we have successfully detected a fraud which illustrates the benefits of a dedicated counter fraud and investigations team. We have also identified system and process improvements which will help to reduce the risk of fraud in the future.
24. We can also be confident that other mechanisms which help to prevent and detect fraud continue to work well such as our whistleblowing arrangements, internal audit and management controls.
25. Our plans for 2011, following Workforce Change implementation, will enable us to build on our existing good practice, more effectively target our resources and increase our opportunity for savings by reducing fraud, error and waste.

## **Director of Resources comment**

26. This report demonstrates the effectiveness of the Audit activity in preventing and investigating fraud and other irregularities. Follow up actions help improve control systems to minimise the risk of future incidents. At a time of considerable change both within the Council and outside the need for an effective resource in this area is particularly reinforced.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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