

Open Report on behalf of Executive Director Resources and Community Safety

Report to:	Audit Committee
Date:	26 September 2011
Subject:	Progress Report - Counter Fraud 2011/12

Summary:

This report provides an update on our fraud investigation activities and information on progress against our Counter Fraud Work Plan 2011/12.

Recommendation(s):

To note the outcomes of our counter fraud work to date and identify any actions it requires.

Background

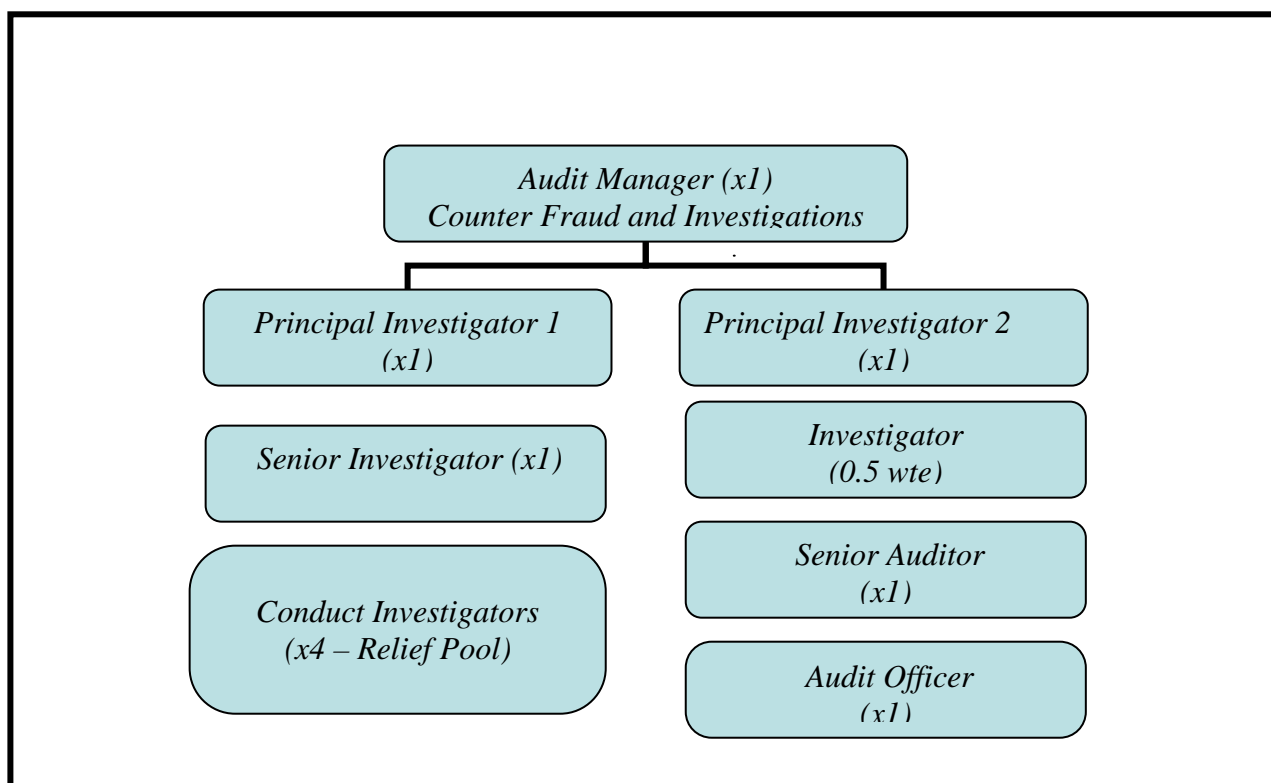
This report provides a summary of:

- counter fraud arrangements
- fraud investigations
- our counter fraud pro-active work

Counter fraud arrangements

- 1 Following the Workforce Change process the Counter Fraud and Investigation team has a wider remit and an improved resource. We recognised the benefits of combining the audit of the Council's key financial systems, the due diligence work and our counter fraud proactive activities and realigned our resources accordingly.
- 2 We developed the 2011/12 counter fraud work plan with the expectation that we would be fully resourced from the mid-point of the year. As this has not been possible we will reduce the work plan and move some tasks into next year – we aim to have a full complement of staff by 31 March 2012 (see point 3 below). More information on work plan changes is included at point 13.

3 The new Counter Fraud and Investigation team structure:



Investigations

4 We have fifteen live fraud cases in the following areas:

Area	Number of cases
Schools (school budget & school fund)	2
Contracts	2
Imprest Accounts	1
Bank Account / Creditor Payments	1
Insurance	3
Early years / after school provision	2
Direct Payments	1
Residential Care Home	1
Debtor income – false invoice	1

Area	Number of cases
Financial abuse – service user monies	1

- 5 Due to the status of the above fraud cases we are unable to provide specifics at this stage but we can report that the combined value of the above fraud cases is £2.15m. So far this year we have successfully secured the recovery of £652k and the suspected fraudulent insurance claims (approx £40k) are 'on hold' pending the outcome of our enquiries. We are taking recovery action where investigations are complete and have satisfactorily quantified the extent of the loss. We will update our recovery successes throughout the year.
- 6 We currently have one fraud case which has reached court stage. The subject (a former employee) is due to attend court for a plea hearing this month. The plea hearing has been subject to numerous postponements but we believe this latest date will go ahead as planned. This is a significant case and will be a useful case study for future awareness sessions and organisational learning. The Police have frozen the perpetrator's assets and we have also lodged a claim with our insurers to ensure maximum recovery of the losses.
- 7 Investigations are underway into a case which has arisen from our National Fraud Initiative testing – the data matching results identified payments to a residential care home provider for a deceased resident. We have identified £17k of incorrect payments to this provider and we are currently investigating whether there is sufficient evidence of fraud.
- 8 So far we have referred 9 of the 15 fraud cases to Lincolnshire Police – these are at different stages of investigation and our team assist, where necessary/possible, with evidence gathering, financial analysis, witness statements and joint PACE (Police & Criminal Evidence) interviews. We have close liaison with Police investigating officers to monitor progress and ensure recovery action. This liaison, in some cases, enables a speedier conclusion to our employment investigations.

Counter fraud pro-active work

- 9 The focus for the team in the first 5 months of this year has been on investigations. However, we have been working on the NFI data matches which has identified potential pension overpayments and incorrect payments to a residential care home provider. Action is underway to investigate these data matches further.
- 10 We are nearing completion of our proactive exercise on the use of Imprest Accounts. The accounts are set up to facilitate petty cash reimbursements at a local level such as social services area offices, children's homes and schools etc. Each area has a dedicated non-interest bearing bank account with a pre-determined limit which ranges anywhere between £100 and £8k.

Imprest operators submit monthly claims of expenditure – the claim is input to the Council's accounting system and this triggers the bank account top up.

- 11 So far we have identified system improvements and scope to lower imprest balances which will release cash and further reduce the opportunity for fraud and error. We also identified a fraud which we are currently investigating and have referred to the Police.
- 12 Work is ongoing to implement the changes following the completion of our proactive fieldwork on fraud proofing Council contracts, service level agreements and policies. The next phase of this work was delayed due to sickness absence and the impact of Workforce Change. We intend to revisit this over the next quarter and will report the outcomes to the next committee.
- 13 Due to unforeseen resource constraints, we will not be able to complete all the 2011/12 Work Plan and intend to reduce our programme of work in the following areas:
 - training
 - follow up – system/policy improvements arising out of previous investigations
 - fewer proactive exercises
- 14 We plan to carry out a proactive exercise on direct payments and complete the outstanding NFI testing. We shall also be updating our fraud risk assessment following the service and workforce changes and will then focus our attention on raising awareness.
- 15 All remaining non-investigative resources within the team will be targeted on the continuous audit of LCC's key financial systems, which includes some fraud specific testing. Our audit coverage will also pick up key due diligence work which has traditionally sat within the Audit Plan.
- 16 The National Fraud Authority has been working with the Audit Commission to produce a new Fraud and Corruption Manual. The first modules of this "fighting fraud toolkit" will be released in November this year along with the Audit Commission's report on Protecting the Public Purse 2011. We understand that these publications are aimed at auditors and operational staff and, among other things, will provide information on emerging fraud threats and good practice case studies. This information will support our proactive work programme in future years.

Conclusion

- 17 We have achieved good results in the first part of the year despite resourcing constraints and the impact of workforce change. We continue to receive fraud referrals and identify fraudulent activity through our proactive work and have retained the ability to effectively investigate and obtain the

requisite evidence to facilitate recovery of losses. So far we have successfully recovered over 30% of the identified fraud losses and are confident of improving on this figure over the remainder of the year.

- 18 Our internal investigations have resulted in 60% of our cases being referred and investigated by the Police. This is consistent with our Counter Fraud Policy and demonstrates the zero tolerance stance on fraud – something which is endorsed by central government through the National Fraud Authority.
- 19 We still have capacity to fulfil our NFI responsibilities and carry out some counter fraud proactive work throughout the remainder of the year. We shall focus heavily on raising awareness and providing managers and staff with the tools and knowledge to prevent and detect fraud.

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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