

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

Report to:	Audit Committee
Date:	19 December 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:

- our counter fraud pro-active work
- fraud investigations

Counter fraud pro-active work

Imprest Accounts (petty cash)

- 1 One of the emerging fraud risk areas within the Midland Counties region was the misuse of Imprest Accounts. We assessed the level of risk exposure within the Council through analytical review and devised a pro-active fraud exercise. We targeted the higher value accounts (between £3k and £8k) and areas where data and other intelligence indicated potential problems.
- 2 We carried out a series of unannounced visits at twenty different sites and found one fraud. We handled the fraud and disciplinary investigation and the referral to the Police. A member of staff admitted false accounting and was recently sentenced to 200 hours community service. The individual has resigned.
- 3 The investigation highlighted the importance of separation of duties, supervision and sound record keeping. We were also able to recommend







reductions in account balances releasing cash for use elsewhere within the Authority whilst at the same time lowering the opportunity for fraud and error.

- 4 We raised awareness by reporting the results of this exercise in October's Financial Strategy Group Newsletter which has a wide circulation among finance and other professionals at all levels throughout the Authority. We also intend to issue an Internal Communication message.

National Fraud Initiative 2010/11




- 5 Having focused our resources on what we assessed as the higher risk data matches (payroll, pensions and residential homes) we are now continuing our work by reviewing the matches on creditors and blue badge systems.
- 6 So far we have successfully recovered £20k in overpayments to pensioners and residential care homes. We anticipate further recoveries in pension overpayments.
- 7 Final results, including system improvements and recovery action will be reported at the end of the year.

Fraud Awareness Sessions

- 8 During November we attended all primary and secondary headteacher forums across the county to raise awareness of the fraud risks within the school environment.
- 9 Given the small number of high value frauds within Lincolnshire schools over the last 18 months, Assistant Directors in Children's Services agreed it would be a useful and opportune time to highlight the risks and the measures headteachers can take to protect their schools.
- 10 The sessions were very well attended and we received good feedback on our coverage. We highlighted:
 -  national fraud statistics / estimated losses in local government
 -  the local fraud picture
 -  a case study – high value fraud in a Lincolnshire primary school
 -  key fraud risks for schools
 -  tips for headteachers to reduce those risks
 -  policies & procedures
- 11 The same presentation was also delivered at the school governor forums (also in November). As these forums are not so well attended we aim to provide more information for governors on the new Audit Lincolnshire website.

Audit Lincolnshire Website






- 12 The Section has been working hard on the development of a new website – the Counter Fraud team have contributed to the website but we aim to maximise this resource in the future by:

-  issuing regular fraud bulletins / warnings
-  posting guidance to schools, governors, council managers and staff
-  publishing case studies (recent investigations)





Fraud – National Picture / Guidance

- 13 The Audit Commission recently released its “Protecting the Public Purse” publication for 2011. This document specifically covers fraud against local government and is written for councillors and senior officers responsible for governance.

- 14 There are a number of recommendations in the document – those most relevant to this council are:

-  Improve our use of data, information and intelligence to better focus our counter fraud work
-  Review our counter fraud arrangements against the National Fraud Authority’s strategy for local government “Fighting Fraud Locally” to be launched in December 2011
-  Review personal budget arrangements to ensure safeguarding and whistleblowing arrangements are proportionate to the fraud risk
-  Follow good practice and match successes of others
-  Complete the Audit Commission checklist to review our counter fraud arrangements

- 15 The Audit Commission surveyed counter fraud specialists and senior finance officers and identified the following emerging risks:

-  expansion of personal budgets (direct payments) in social services
-  impact of economic climate – individual financial pressures creating incentive to commit fraud
-  reduced staff numbers – potential impact on internal controls
-  fraudsters abusing the expenditure information published by councils

- 16 We already have direct payments (personal budgets) within our counter fraud proactive plan and will be carrying out this work in quarter 4.






- 17 The Audit Commission are currently updating their Counter Fraud and Corruption Manual which will be published in 2012. We will review our work plans against the revised manual and incorporate any recommended good practice and fraud testing into our programme of work for next year.

Investigations

- 18 In September we reported 15 live fraud cases and are able to report that 2 of those cases have now reached a conclusion – see below for detail. We have not received any new referrals since we last reported to the Committee or recovered any other losses other than through our NFI work (£20k).
- 19 **Case 1** – our internal auditors identified unusual transactions and missing invoices during an audit visit to a Lincolnshire School. Auditors were concerned by unclear explanations, the type of suppliers used and their failure to provide the missing invoices.
- 20 The matter was referred to our Counter Fraud & Investigations Team – our enquiries found financial irregularities amounting to £200,000. The person behind the fraud was an Administrator – they were a trusted, long standing member of staff and had complete access and control over all of aspects of the financial systems. We handled both the fraud and employment investigations – the Administrator was dismissed just over three months from the point of suspension.
- 21 They had falsely claimed thousands of additional hours (forging the authorisation) over a ten year period, some on bank holidays including Christmas Day. They forged signatures on hundreds of cheques to obtain cash and pay for clothing, furniture, utility, phone and other household bills. They set up suppliers on the accounting system to pay off credit cards, loans and other debts – this included high street retailers and financial institutions not normally used by the organisation.
- 22 Early in their enquiries the Police placed a freeze on assets which included the house, savings and vehicles. The individual pleaded guilty to fraud, theft and obtaining a money transfer by deception amounting to £142k and was sentenced to two years imprisonment. We are now pursuing the recovery of losses and the Economic Crime Unit is seeking a compensation order, on our behalf, under the Proceeds of Crime Act.
- 23 This individual abused their position of trust and exploited weak financial controls. They had opportunity – lack of supervision, poor management oversight and no segregation of duties. Detailed scrutiny of staffing and expenditure reports with ad-hoc checks to source documentation would have identified the irregularities sooner. No system is foolproof but regular use of the basic financial controls would have acted as a deterrent and significantly reduced the scope for fraud.
- 24 Controls have been strengthened and the school now has improved management oversight. We have also raised awareness of the risk of fraud within the schools at the recent headteacher forums.

- 25 **Case 2 – Imprest Account (Petty Cash)** – this investigation arose out of a proactive exercise (already reported at point 2 above). As a result, two officers were subject to disciplinary action.
- 26 Imprest accounts vary in value, anywhere from £100 to £8,000. We targeted the high value accounts and those with known problems. The fraudster operated an imprest with a limit of £5.5k – our findings showed a shortfall of £4.7k.
- 27 As with many of our cases, the fraudster exploited the high level of trust placed in them and the consequent lack of management oversight. False amounts had been inserted on reconciliation sheets, cash and cheques had not been consistently recorded and running balances were not maintained, disguising the discrepancies.
- 28 The Council’s systems and procedures are clear – this investigation highlighted the consequences of non-compliance and the need for consistent supervisory checks.

Conclusion

- 29 Our focus for the remainder of the year will be:
-  further fraud awareness sessions
 -  completion of our NFI work
 -  proactive exercise on direct payments (addressing the Audit Commission recommendation)
 -  closure of outstanding fraud cases
 -  work on key financial systems and due diligence audits
- 30 We will address other areas highlighted by the Audit Commission (such as procurement fraud) in our 2012/13 work plan. We do, however, recommend the Committee considers completing the checklist appended to the Protecting the Public Purse publication – this checklist has been designed for those responsible for overseeing governance. It will also provide assurances on our existing counter fraud arrangements and help to inform the next years work plan.

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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