

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

Report to:	<b>Audit Committee</b>
Date:	<b>11 June 2012</b>
Subject:	<b>Counter Fraud Annual Report 2011/12</b>

**Summary:**

The purpose of this report is to review the delivery of our 2011/12 Counter Fraud Work Plan and to provide you with information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption.

**Recommendation(s):**

The Audit Committee to consider the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made during 2011/12 to implement policy.

**Background**

1. In April 2012 the National Fraud Authority published its long awaited Local Government Fraud Strategy – “Fighting Fraud Locally”. The key messages are about **acknowledging** and understanding the problem of fraud, greater **prevention** and smarter enforcement by **pursuing** fraudsters and developing effective recovery processes.
2. The strategy also recognises the need to develop the local capability and capacity to investigate fraud with a more collaborative and supportive law enforcement response.
3. The national spotlight is on public sector fraud, with an estimated £20.3 billion lost through fraud and error each year – £2.2 billion of that figure relates to Local Government.
4. Lincolnshire County Council already has a clear commitment to reducing fraud and error and has had a small but dedicated and effective counter fraud team for some years. The National Fraud Authority is encouraging all Councils to adopt a tougher approach against fraud, particularly as Local Government is under pressure to make savings – their view is that this strategy can contribute to the savings agenda.

5. The Council is in a strong position to implement the “Fighting Fraud Locally” strategy with many of the recommendations already in place. We recognise, however, that there is scope for further development to ensure we have a resilient response to the changing environment within Local Government.
6. The Counter Fraud & Investigation team was strengthened during 2011/12 – this was following a successful business case and the implementation of Workforce Change. The counter fraud proactive activities are now aligned to the due diligence audit work on the key financial systems – this maximises our use of resources and allows us to further develop our data analytics capabilities.

### **Investigations into Suspected Fraud 2011/2012**

7. The number of fraud referrals received last year is consistent with the previous two years – 17 in total. The estimated value of fraud associated with these cases is £968k – some were attempted frauds which we have stopped without any loss to the public purse. Three cases referred in 2011/12 are still ongoing – hence the estimated total included in this report.
8. In year we have had two successful prosecutions:
  - A former administrator at a Lincolnshire Primary School was sentenced to two years imprisonment after admitting fraud, theft and obtaining money transfers by deception amounting to £142k – actual losses were estimated to be in the region of £200k. We are recovering the loss through the perpetrator’s assets (under the Proceeds of Crime Act), personal pension and the Council’s insurers.
  - A former employee pleaded guilty to false accounting and received a 12 month community order – 200 hours unpaid work. The fraud was discovered during a proactive fraud exercise on Imprest Accounts (petty cash) – the value of the loss was £4.7k. We were unable to recover the loss under the Proceeds of Crime Act as although the perpetrator caused the loss, Police were unable to prove they benefited.
9. We have a third case relating to early years funding which is close to completion – Police have charged the perpetrator with two counts of fraud and one of theft. A court hearing is pending.
10. Analysis shows that the types of fraud cases investigated by Lincolnshire County Council are similar to those highlighted nationally by the Audit Commission and National Fraud Authority. Procurement fraud is identified as one of the highest risk areas within Local Government, losing an estimated £890 million each year – two of our cases last year, with an estimated value of £262k, fell within this category.
11. Each year we analyse the categories of fraud and compare the results with previous years to identify trends and specific areas of concern. We note that the fraud referrals are spread over a wide range of areas – this is consistent with the findings in previous years.

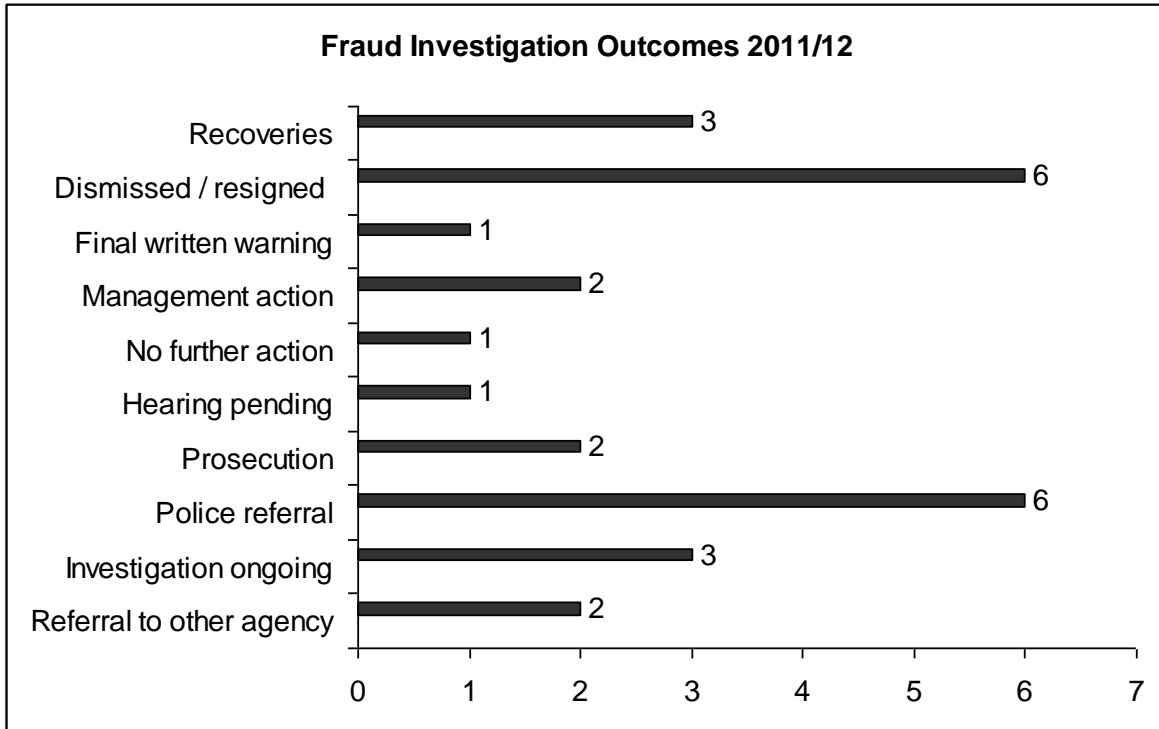
12. The table below shows the type of fraud uncovered in our investigations over the last three financial years. Some of our cases include more than one type of fraud and/or more than one perpetrator – to provide an accurate picture we have recorded each type of fraud identified in each case. The total number of instances in the table below will therefore be higher than the number of cases investigated during 2011/12.

<b>Fraud Type</b>	<b>No. of instances 2009/2010</b>	<b>No. of instances 2010/11</b>	<b>No. of instances 2011/12</b>
Abuse of Position	4	3	2
Bank Account / Creditor Payments	-	-	1
Cheque Fraud	-	1	-
VAT fraud	1	-	-
Direct Payments	-	-	-
Expenses	-	1	1
Fundraising	-	-	-
False Invoices	-	1	-
False Claims	-	1	-
False Accounting	-	-	2
Grants	2	1	2
Insurance Fraud	-	1	3
Imprest (Cash)	-	2	-
Misuse of Assets	2	1	2
Payroll	-	3	2
Pension	-	-	1
Procurement	3	3	2
School Fund / Budget Share	1	-	-
Service User Finances	6	2	3
Timesheet / Abuse of Time	3	1	1

National statistics include pre and post contract frauds under the single heading of procurement - to tie in with national reporting we have now combined the cases involving award of contracts and contractor fraud under "procurement".

13. The above analysis shows that over the last three years the most common types of fraud relate to abuse of position, procurement and service user finances.

14. Outcomes relating to the fraud cases completed / ongoing during 2011/12:



15. The above table shows we continue to impose tough sanctions in all fraud related cases, referring matters to the Police where appropriate and looking for prosecution and recovery of any identified losses.

16. **Redress**

Total recoveries in the last year 2011/12 - **£851,000**:

- £500k (procurement fraud)
- £60k (recoveries through 10/11 National Fraud Initiative (NFI))
- £291k (bank account/creditor payments fraud)

Attempted frauds stopped during 2011/12:

- 6 – subject to Police investigation – total **£130,200**

Given the ongoing Police investigations we are unable to provide a breakdown of the attempted frauds. One of the 6 cases is not being pursued further – this relates to an attempted insurance fraud – the claim was subsequently rejected, potentially saving £20k.

17. We noted, for the first time, an increase in frauds perpetrated by individuals external to the Council.

2010/11 – 12 cases internal (70%) and 5 external (30%)

2011/12 – 9 cases internal (53%) and 8 external (47%)

The highest value frauds investigated last year related to external cases. This trend is consistent with that experienced in the previous year and is likely to remain a high risk area with the shift to commissioning authorities.

18. We continue to help managers improve Council systems and procedures to reduce the risk of fraud in the future – action plans are agreed and implemented, where necessary. The Council has investigated a small number of frauds within the school environment – to help reduce these risks we have:
- raised awareness at headteacher and governor forums
  - strengthened the data analytics to enhance the school audits

### **Proactive Work – 2011/12**

19. Our proactive work during 2011/12 has included:
- imprest accounts
  - direct payments
  - 2010/11 National Fraud Initiative (NFI) data matches for Lincolnshire County Council
20. Our main focus has been on investigations but our team is now fully resourced and will be able to increase the level of proactive work completed during 2012/13. We identified one fraud during our review of imprest accounts which resulted in prosecution – we also issued recommendations to help reduce the risk of this occurring in the future. Our work on direct payments is ongoing and our findings will be reported shortly.
21. One of the main fraud risks identified for the Council was within the school environment – we have attempted to address this by raising the profile at headteacher and school governor forums – the sessions were well attended and we received good feedback on our coverage. The sessions included a detailed case study based on a high profile school case within Lincolnshire and tips for headteachers to reduce fraud risks.
22. We identified £60k of overpayments through our NFI testing – this is down on the previous exercise as there were fewer overpayments to care home for deceased residents. We have recovered the overpayments in full – these relate to pensions, private care homes (for deceased residents) and duplicate creditor payments.

### **Conclusion**

23. In our 2010/11 Annual Report we highlighted over £800k of recovery potential – we are pleased to report that we have exceeded this target by

more than 6% and almost 24% if we include the £130k of attempted fraud we have stopped before a loss was incurred.

24. The value of fraud identified during 2011/12 shows that it is still a high risk area and reinforces the messages from the National Fraud Authority that we must maintain a robust anti-fraud response.
25. It also shows that it is important that we continue to acknowledge and understand our fraud risks and strengthen our arrangements to prevent, detect, investigate and punish fraudsters. We now have a fully resourced team and a robust work plan for 2012/13 which aims to:
  - further develop the Council's anti-fraud culture
  - make better use of information and technology to prevent and detect fraud
  - implement the recommendations of the Local Government Fraud Strategy

## **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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