



COUNTER FRAUD  
*Services*

# Lincolnshire County Council Counter Fraud Annual Report 2016/17





*For all your assurance needs*

## **What we do best ....**

Innovative assurance services

**Specialists at internal audit**

**Comprehensive risk management**

**Experts in countering fraud**

## **..... And what sets us apart**

**Unrivalled best value to our customers**

**Existing strong regional public sector partnership**

**Auditors with the knowledge and expertise to get the job done**

**Already working extensively with the not-for-profit and third sector**



The contacts at Assurance Lincolnshire for this report are:

Lucy Pledge CMIIA QIAL  
Audit and Risk Manager  
01522 553692  
[Lucy.pledge@lincolnshire.gov.uk](mailto:Lucy.pledge@lincolnshire.gov.uk)

Dianne Downs  
Team Leader  
01522 553682  
[Dianne.Downs@lincolnshire.gov.uk](mailto:Dianne.Downs@lincolnshire.gov.uk)

Matt Drury  
Principal Investigator  
01522 553690  
[matt.drury@lincolnshire.gov.uk](mailto:matt.drury@lincolnshire.gov.uk)

## Contents

Key Messages	4
Fraud investigations 2016/17	5-8
Proactive work	9-10
Lincolnshire Counter Fraud Partnership	11-12
Conclusions and next steps	13
Appendix A	
• Counter Fraud Work Plan 2016/17	14-19
Appendix B	
• Fraud referrals – 2012/13 to 2016/17	20

This report has been prepared solely for the use of Members and Management of Lincolnshire County Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be issues that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed counter fraud plan.



## Key Messages

1. The purpose of the annual report is to provide assurance to the Audit Committee on the effectiveness of the Council's arrangements to counter fraud and corruption. The report also informs the committee of performance against the 2016/17 Counter Fraud Work Plan and the outcomes of proactive counter fraud work and investigations conducted.
2. The Counter Fraud and Investigation Team has delivered 70% of the planned work included within the 2016/17 Counter Fraud Work Plan. This is less than the proportion of work delivered in the previous year (86%) – however, this should be considered in conjunction with the significant increase (45%) in investigations undertaken (some of which were complex and therefore time consuming). This has inevitably impacted on the team's ability to deliver all the work included in the 2016/17 plan, but demonstrates flexibility to respond to emerging risks and priorities.
3. Our recoveries increased to over £68k in 2016/17 compared to £31k reported in 2015/16. Our work in 2016/17 identified scope for further recoveries of £83k, which we will continue to pursue.
4. Our data analysis skills have also played a major role in the identification and recovery of £1.6m in duplicate payments made to suppliers.
5. We continued to focus heavily on enhancing fraud awareness in 2016/17. We have taken a significant step forward by developing and launching an e-learning course aimed at Lincolnshire County Council managers and officers. The team has broadened the use of media channels to reinforce our message to a wider audience.
6. Methods of reporting fraud concerns have been promoted across the county and this has resulted in a significant increase in whistleblowing activity and consequently, investigations undertaken.
6. We delivered fraud awareness sessions and liaised with the Serco Masterdata Team. As a direct result of our work and strengthened internal controls, the Serco Team successfully stopped an attempted bank mandate fraud. This prevented a payment of £107k from being made to the fraudsters.
7. A Fraud Health Check review has been completed to evaluate the counter fraud arrangements at Lincolnshire County Council against best practice guidance. The outcome of the review was encouraging as the authority has many of the components for a robust counter fraud framework already. Some areas for future development were identified and have been incorporated into future planning. Once implemented, this will improve the council's resilience and response to fraud and corruption.

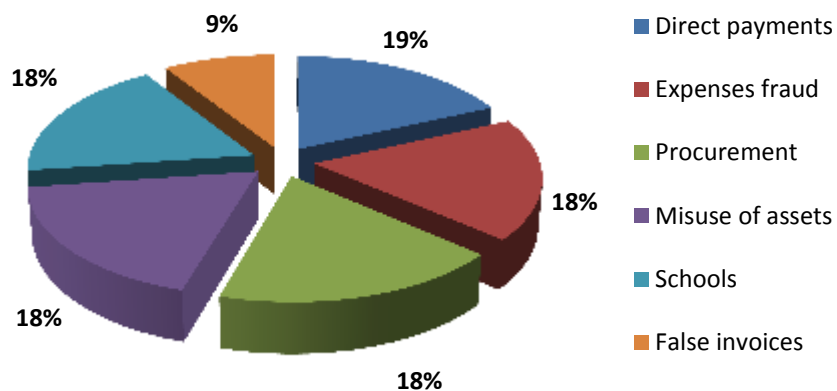


## Referrals

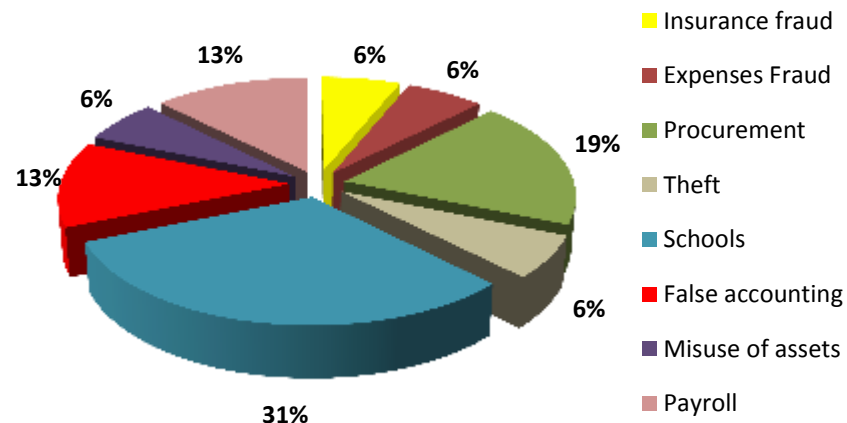
8. We received 16 new referrals of suspected fraud during 2016/17 – this represents a significant increase (45%) on the previous year.
9. In 2016/17, we continued to receive referrals relating to schools, procurement and expenses fraud – this is demonstrated in Table 1 below. In 2017/18 we plan to reinforce our recent drive against procurement and contract fraud. This category of fraud remains a major threat to local authorities and we will continue our proactive efforts in this area. Expenses fraud is a long standing risk area and we regularly obtain and analyse expenses data to identify potentially fraudulent claims.
10. Analysis of the referrals made (see Table 1) reveals that the upwards trend in cases at schools has continued in 2016/17 – the issues involved in these cases are varied. We have included time in the Counter Fraud Work Plan 2017/18 to escalate our proactive work with schools and respond to this area of risk. The charts show that no Direct Payment or Financial Abuse cases were referred in 2016/17 – we intend to refresh our awareness work on social care fraud to ensure the risks in this area remain on the radar.
11. A summary of referrals received over the last 5 years can be found at Appendix B

TABLE 1

### Fraud referrals - 2015/16



### Fraud referrals - 2016/17





### .Investigations

12. We carried out 9 investigations during the year – again this was an increase on the amount of investigation activity in 2015/16.

13. Results from investigations during 2016/17:

- We investigated a case of theft of monies at a school. Although the amount involved was not significant, the offence was perpetrated by one member of staff against another and therefore the case involved issues of trust and reputation. We referred the matter to Lincolnshire Police and they decided not to pursue criminal proceedings. However, the individual was summarily dismissed after a disciplinary investigation.
- We recently completed an investigation involving an employee of one of the council's partners. The main issues involved are around false accounting and theft of £39k. The case was referred to Crown Court in June 2017 resulting in a 15 month custodial sentence for the individual. Media coverage of the case reinforced the Council's zero tolerance approach towards fraud, serving as a deterrent.
- A case was referred to the team that initially appeared to be a potential systematic fraud across a multi-agency partnership. Further investigation found the issues involved were the result of training and recording matters that had resulted in

breaches of policy. Management action was agreed as the most appropriate sanction.



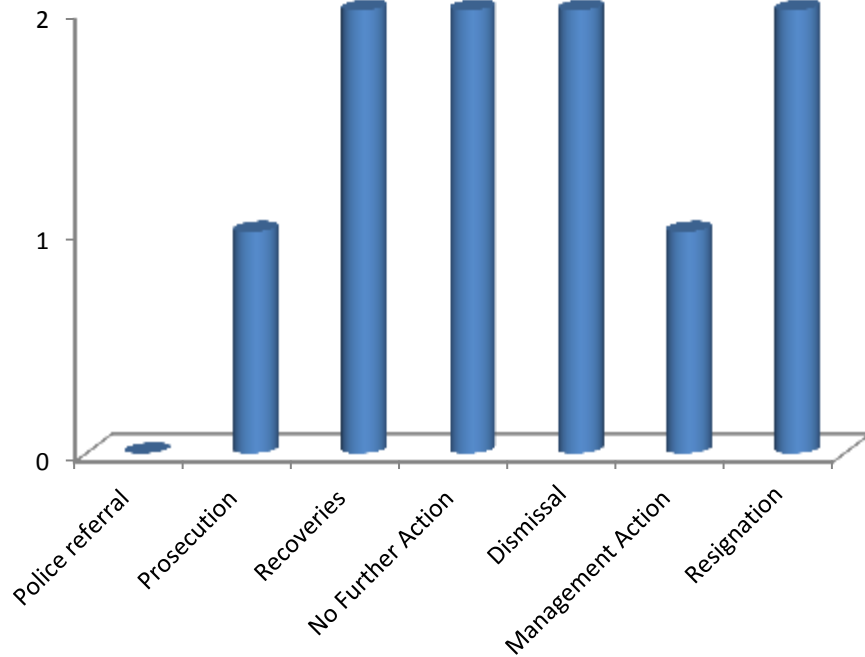


## Outcomes

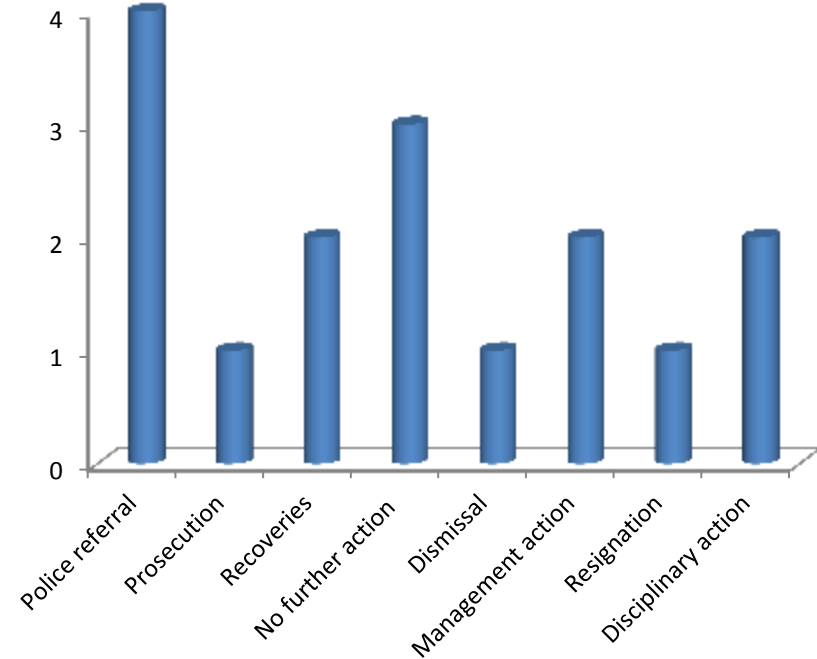
14. We have analysed the results from cases completed in 2016/17 – please refer to Table 2 below. The results, particularly those for prosecutions and police referrals, demonstrate that the Counter Fraud and Investigation Team will seek to apply realistic and effective sanctions where an investigation reveals fraudulent activity. This is in accordance with the council's Counter Fraud Policy.

TABLE 2

Fraud Investigation outcomes 2015/16



Fraud Investigation outcomes 2016/17





### Recoveries

15. We have successfully increased our investigation recoveries in 2016/17 to over £68k, compared to £31k in reported recoveries for 2015/16. The 2016/17 data demonstrates the team's ability to secure recovery of council funds through various channels, and includes:

- £33k from an external organisation following identification of diverted funds.
- £35,787 following data matches identified in the National Fraud Initiative 2016/17 – this involved 3 cases where care home residents had deceased although payments for their care continued.

16. During 2016/17 we identified scope for further recoveries and will continue to pursue:

- £17k – National Fraud Initiative data which shows pensions paid after death of the beneficiary
- £38k from a fraud investigation opened during the year – expected to conclude in 2017/18.
- £28k theft from a school.

17. We have strong data analysis skills within the team and these have been used since the implementation of Agresso to identify duplicate payments made to suppliers. In conjunction with the Audit and Finance Team over £1.84m has been identified and the vast majority of payments recovered (£1.6m).







### Awareness

18. We worked closely and pro-actively with the Serco Masterdata to build fraud awareness and reinforce preventative controls over a period of time. We are pleased that this work has paid off and were encouraged by a recent outcome involving a bank mandate fraud attempt. As a direct result of our work and strengthened internal controls, the Serco Team successfully stopped a payment of £107k being diverted to the fraudsters. Councils and particular departments may be targeted by fraudsters in such cases and the financial and reputational impact can be significant. We also reported this issue to Action Fraud and have issued communications to relevant teams to help build knowledge of such attempts.

19. Fraud awareness remains an important factor in helping local authorities to create an anti-fraud culture. We have developed a Fraud Awareness e-learning course aimed at Lincolnshire County Council managers and officers. This package includes sections covering:

- Understanding fraud
- Preventing and detecting fraud
- Roles and responsibilities
- Bribery, corruption and money laundering
- Reporting suspicions of fraud

The course is highly interactive and designed to help improve understanding of the fraud risks faced by the Council and how they are dealt with. It also reinforces the responsibilities of all staff in preventing and detecting fraud.

20. The Counter Fraud and Investigation Team also refreshed its presence on the council's internal and external websites. Details available include a summary of the services provided by the team, the cost of fraud and also the wide ranging nature of frauds that can occur. Methods of reporting fraud concerns are also heavily promoted.

21. We have continued to use varied media channels to promote fraud issues and our work and will continue to do so. We plan to continue our efforts to use social media to ensure the anti-fraud message reaches different target audiences.

### National Fraud Initiative 2016/17

28. During the year we submitted datasets to the Cabinet Office for the National Fraud Initiative. This is a data matching exercise that compares Lincolnshire County Council data against that submitted by other public bodies. In our initial review of the results we targeted specific reports as priority areas. This led to the identification of 3 cases where overpayments had been made to care homes - £35,787



was promptly recovered as a result. Further cases (value £17.6k) have been identified where pensions have been potentially overpaid following the pensioners death – we are currently working to establish the exact nature of these cases.

28. We have also identified some cases where council officers have not declared their interest in council suppliers. These issues have now been identified and formally documented. There is no suggestion of fraud in these cases but the declaration of interests ensures transparency to protect the council's reputation. We also plan to perform some further data analysis on creditor reports to ensure we have captured all duplicate payments made.

### Fraud Health Check

24. We have performed a high level Fraud Health Check to review and evaluate the counter fraud measures in place against best practice guidance such as the CIPFA Code of Practice on managing the risk of fraud and corruption and the local government counter fraud and corruption strategy (Fighting Fraud & Corruption Locally 2016-2019).
25. The review found that the council has many of the components for a strong counter fraud framework in place which already meets best practice. The report made a number of recommendations which are considered proportionate to the perceived fraud risk and to the resources available. These are in line with recognised counter fraud best practice and will ensure a higher level of

performance and improve the council's resilience to fraud and corruption – these areas have been reflected in planned work for 2017/18.

### Other Proactive Work

26. CIPFA are currently developing framework standards for Counter Fraud in Local Government. The aim is to provide more structure for councils to manage the risks of fraud and corruption. The standards will work in conjunction with current best practice and existing strategies. Our team has been nominated to represent the midlands based county councils in a working group responsible for carrying out research to help produce the standards.
27. The Lincolnshire Counter Fraud Partnership is now represented on the TEICCAF Advisory Board. TEICAFF (The European Institute for Combatting Corruption And Fraud) main roles are to share knowledge and best practice on counter fraud and also highlight upcoming trends through their annual Protecting the Public Purse surveys. It is hoped that membership of these bodies will allow the council to gain more insight and influence in counter fraud developments.
28. We continue to host the Midland Counties Fraud Group – this currently consists of representatives from 18 councils across the region. Regular meetings and liaison takes place and this allows members to exchange details on cases, best practice and fraud risks.



## Conclusions and Next steps

29. The Lincolnshire Counter Fraud Partnership (LCFP) was created following a successful bid to the DCLG's Counter Fraud Fund in 2014. The innovative partnership arrangement includes eight Lincolnshire councils (with Lincolnshire County Council acting as lead partner) working together to develop a strong, effective and sustained response to the threat of fraud across the county. From 2017/18 the partnership will also include Lincolnshire Police.
30. LCFP is enhancing fraud resilience and fraud proofing across Lincolnshire through co-ordinating targeted fraud awareness campaigns; sharing fraud intelligence and best practice; delivering savings and making effective use of resources.
31. The arrangements continue to enable a wide ranging and effective approach to address key fraud risks across Lincolnshire. During 2016/17, there was continued focus on awareness work in specific areas most at risk to fraud and the partnership worked closely with Lincolnshire Council's Counter Fraud and Investigation Team to jointly deliver promotion campaigns. The Lincolnshire Authorities Confidential Reporting arrangements were also promoted – increased whistleblowing traffic is evidence that communications are working well.
32. Other achievements in 2016/17 include:
- Launch of Fraud Awareness e-learning – currently being rolled out across the Lincolnshire local authorities. Initial feedback is positive about the interactive resource which provides a foundation for a good understanding of fraud.
  - Improved fraud Intelligence provided by regularly sharing information about scams, alerts and fraud cases. Key themes have included using stolen debit / credit cards to make payments before requesting a refund; using a finance manager's email details to attempt fraudulent payment and cyber scams.
  - Delivery of Fraud Health Checks (reviews of current counter fraud arrangements against best practice). Local authorities have found the reviews useful and positive feedback has been received.
  - A business rates 'missing properties' project is delivering savings – Rateable Value increase identified of £600k within West Lindsey District Council properties and income is estimated at £150k.



### 33. Partnership priorities for 2017 /18 include:

- Pro-active exercises on Procurement fraud, Blue badge and Housing Tenancy fraud
- Fraud awareness – promotion of the Lincolnshire Authorities Whistleblowing Facility, deliver fraud awareness sessions and campaigns, monitor e-learning take up
- Best practice / intelligence – provide specialist advice on fraud risks and controls, share fraud intelligence, engage with national and regional groups, identify themes from fraud risk registers and update Counter Fraud policies.
- Projects – perform a feasibility study to support a County wide data hub and involvement with the Serious and Organised Crime pilot.





## Conclusions and Next steps

34. The Counter Fraud and Investigations Team have completed 70% of the Counter Fraud Work Plan for 2016/17 (please refer to Appendix A). It was not possible for the team to fulfil some areas of the plan due to increased demand for fraud investigation resources during the year – one investigation in particular was time consuming and impacted on the team's ability to deliver some proactive counter fraud areas including the update of the council's fraud risk assessment, a counter fraud exercise within schools and completion of our review of counter fraud policies and strategies. These areas have been deferred to the 2017/18 Plan.
35. Despite the reduced proportion of planned work being completed in 2016/17 we believe that the team continues to provide an effective response to the threat of fraud – this is demonstrated by the value of recoveries made and frauds prevented. Inevitably, where limited resources are available, an increase in investigations activity will impact on the ability to complete other proactive work aimed at prevention and detection (e.g. targeted counter fraud exercises and awareness work). One of the main priorities for the 2017/18 plan includes the update of the council's fraud risk assessment – work has already started on this and will ensure our future response is aimed at the correct areas of fraud risk.
36. The Lincolnshire Counter Fraud Partnership has continued to perform well and deliver results on behalf of its partner authorities – the fraud health checks and project savings made being notable achievements.
37. In 2017/18 we plan to strengthen the counter fraud framework at Lincolnshire County Council and ensure our arrangements reflect best practice. Our plan also includes time to ensure proactive exercises are carried out in our main areas of fraud risk. We will also continue to deliver awareness work to ensure regular communications with stakeholders aimed at building an anti-fraud culture.
38. Additional funding of £35k has been secured for 2017/18 to continue to support the work of the Lincolnshire Counter Fraud Partnership and increase capacity.





Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
<b>CIPFA Code of Practice – key principle A : Acknowledge Responsibility</b>			
A1 - Acknowledge the threat of fraud and corruption	<ul style="list-style-type: none"> <li>Engagement and training</li> <li>Fraud awareness</li> <li>Website development and maintenance</li> <li>Development of e-learning package (in conjunction with Lincolnshire Counter Fraud Partnership)</li> </ul>	Briefing sessions – training for members, management and staff (general and specific fraud areas)	Outstanding
A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption		Engagement with Corporate Management Board	Outstanding
A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks		Engagement with relevant groups e.g. Risk & Safety Group	Outstanding
A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption		Updates, risks, results and information (various publications and channels)	Completed
		Develop e-learning platform and link to Assurance Lincolnshire website	Completed
		Development of a fraud newsletter to raise awareness	Outstanding
<b>Days - 40</b>			



Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
<b>CIPFA Code of Practice – Key principle B : Identify Risks</b>			
B1 - Fraud risks are routinely considered as part of risk management arrangements	<ul style="list-style-type: none"> <li>Update fraud risk profile</li> <li>Analysis and publication of fraud losses</li> </ul>	Completion of the council's Fraud Risk assessment	Ongoing
B2 - The organisation identifies the risks of fraud and corruption		Annual and progress reports of counter fraud activity to Audit Committee	Completed - annual & progress reports presented
B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures		Develop fraud loss profile	Ongoing
B4 – The organisation evaluates the harm to its aims and objectives		Fraud awareness sessions and activity in areas identified at high risk to fraud	Completed
<b>Days - 25</b>			



Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
<b>CIPFA Code of Practice – Key principle C : Develop a Strategy</b>			
<p>C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks</p> <p>C2 - Strategy includes the organisation's use of joint working or partnership approaches</p> <p>C3 - The strategy includes both proactive and responsive approaches:</p> <p><i>Proactive action:</i></p> <ul style="list-style-type: none"> <li>• Develop counter fraud culture</li> <li>• Prevent fraud through implementation of robust internal controls</li> <li>• Use of techniques such as data matching</li> <li>• Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters</li> </ul> <p><i>Responsive action:</i></p> <ul style="list-style-type: none"> <li>• Detecting fraud through data and intelligence analysis</li> <li>• Implementing effective whistleblowing arrangements</li> <li>• Investigating fraud referrals</li> <li>• Applying sanctions</li> <li>• Seeking redress</li> </ul>	<ul style="list-style-type: none"> <li>• Counter Fraud Strategy</li> <li>• Review and refresh policy documents</li> </ul>	<p>Continue to develop Counter Fraud Strategy</p> <p>Review and updates of Policies including:</p> <ul style="list-style-type: none"> <li>• Counter Fraud Policy</li> <li>• Fraud Response Plan</li> <li>• Whistleblowing Policy</li> <li>• Money Laundering Policy</li> </ul>	<p>Ongoing</p> <p>Whistleblowing Policy completed. Review of other policies is ongoing</p> <p>Completed</p> <p>Completed</p>
<b>Days - 25</b>			





## Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
<b>CIPFA Code of Practice – Key principle D : Provide Resources</b>			
D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk	<ul style="list-style-type: none"> <li>Lincolnshire Counter Fraud Partnership</li> </ul>	Provision of support to Lincolnshire Counter Fraud Partnership where required	Completed
D2 - The organisation utilises an appropriate mix of experienced and skilled staff	<ul style="list-style-type: none"> <li>Midlands Fraud Group</li> </ul>	Lincolnshire Counter Fraud Partnership – develop: <ul style="list-style-type: none"> <li>resource plans and schedules</li> <li>training and development plans</li> </ul>	Completed
D3 - The organisation grants counter fraud staff unhindered access to its employees		Development of protocols with: <ul style="list-style-type: none"> <li>partners within Lincolnshire Counter Fraud Partnership</li> <li>other public bodies and law enforcement agencies where possible (e.g. DWP, Police)</li> </ul>	Ongoing
D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing		Co-ordination and hosting of Midland Fraud Group meetings and initiatives	Completed
<b>Days - 30</b>			



## Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
<b>CIPFA Code of Practice – key principle E : Take Action</b>			
E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy	<ul style="list-style-type: none"> <li>National Fraud Initiative 2016/17</li> </ul>	Submission of data for National Fraud Initiative 2016/17 data matching exercise (and application of Fair Processing requirements)	Completed
E2 - Plans and operations are aligned to the strategy	<ul style="list-style-type: none"> <li>Proactive counter fraud exercises</li> <li>Data analysis</li> <li>Investigations – whistleblowing referrals</li> </ul>	Analysis of data matches identified through National Fraud Initiative 2016/17	Completed (priority areas reviewed)
E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing	<ul style="list-style-type: none"> <li>Investigations – fraud</li> <li>Applications of sanctions</li> <li>Seeking redress</li> </ul>	Proactive counter fraud exercises: <ul style="list-style-type: none"> <li>Procurement fraud (specific areas)</li> <li>Schools</li> </ul>	Outstanding
E4 - Providing for independent assurance over fraud risk management, strategy and activities	<ul style="list-style-type: none"> <li>Advice</li> <li>Promotion of counter fraud activity</li> </ul>	Data analysis: <ul style="list-style-type: none"> <li>in counter fraud proactive exercises</li> <li>to support key control and continuous testing</li> </ul>	Completed
E5 - Report to the Governing Body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy. Conclusions are featured within the Annual Governance report	<ul style="list-style-type: none"> <li>Organisational learning</li> <li>Reports to Audit Committee</li> </ul>	Investigations arising from whistleblowing reports and frauds identified	Completed
*Please also refer to Specific Step – C3		Applications of sanctions – civil, disciplinary and criminal	Completed
		Seeking redress where successful prosecutions are achieved	Completed
		Promotion and publicity work through various	Completed



## Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
<b>CIPFA Code of Practice – key principle E : Take Action</b>			
		media channels including production of a new fraud awareness leaflet for distribution	Completed
		Promotion of fraud prevention measures	Completed
		Provision of advice on fraud risks and mitigating controls	Completed
		Production of reports and action plans to aid organisational learning – investigation outcomes and learning points	Completed
		Production of progress and annual counter fraud and whistleblowing reports to the Audit Committee	Completed
<b>Days – 370 (including 255 for Investigations)</b>			
<b>TOTAL DAYS ALLOCATED</b>			<b>490</b>
<b>CONTINGENCY</b>			<b>50</b>
<b>TOTAL PLANNED DAYS – COUNTER FRAUD</b>			<b>540</b>



## Fraud Referrals 2012/13 to 2016/17 (Appendix B)

Fraud Type	2012/13	2013/14	2014/15	2015/16	2016/17
Abuse of position	2	-	-	-	-
Direct Payments	-	3	2	2	-
Expenses fraud	-	1	-	2	1
False invoices	1	-	-	1	-
False claims	-	-	2	-	-
False accounting	-	-	-	-	2
Insurance fraud	-	-	-	-	1
Imprest (cash)	-	1	-	-	-
Misuse of assets	2	-	2	2	1
Payroll	2	-	2	-	2
Procurement	-	1	2	2	3
Recruitment	1	1	-	-	-
School Fund/Budget	-	2	-	2	5
Financial abuse	5	-	12	-	-
Theft	-	-	-	-	1
Timesheet/abuse of time	1	-	3	-	-
<b>TOTAL CASES</b>	<b>14</b>	<b>9</b>	<b>25</b>	<b>11</b>	<b>16</b>