



# **Counter Fraud Annual Report 2012/2013**



**Date: June 2013**

## Contents

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	Page
Introduction	1
Background	1-2
Investigations into suspected fraud	2-5
Proactive Work	5-6
Conclusion and next steps	6
Counter Fraud Work Plan 2012/13 - delivery	7-9

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## Introduction

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1. The purpose of this report is to:
  - Review the delivery of our 2012/13 Counter Fraud Work Plan
  - Provide information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption

## Background

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2. The National Fraud Authority (NFA) is a government body set up to work with law enforcement, industry and voluntary/charity sectors to coordinate the fight against fraud in the UK. In April 2012 they published the Local Government Strategy "*Fighting Fraud Locally*" – the strategy revolves around three key strands:

<b>Acknowledge</b>	the need to assess and understand the fraud problem and commit resources to ensure a robust anti-fraud response
<b>Prevention</b>	making better use of information and technology to detect more fraud, enhancing fraud controls and developing a more effective anti-fraud culture
<b>Pursue</b>	stronger enforcement by developing capability and capacity to pursue fraudsters and ensuring effective recovery processes

3. The NFA publish good practice guides, have issued fraud awareness toolkits, carried out project and pilot work on new emerging fraud risks and are working closely with the private sector to develop effective ways of tackling key fraud risks.
4. Each year the NFA publish the Annual Fraud Indicator which provides an indicative estimate of the potential scale of the problem nationally – this is something which develops year on year and consequently is becoming a more robust and reliable estimate of the fraud loss across different sectors and fraud types.
5. The Annual Fraud Indicator for 2013 has just been released – it estimates that a total of £20.6 billion is lost each year in the public sector and highlights it as "an attractive target" for fraudsters (particularly abuse against tax, benefits and grants systems). The total estimated fraud loss against Local Government is £2.1 billion:
  - Housing tenancy fraud - £845 million
  - Procurement fraud - £876 million
  - Payroll fraud - £154 million
  - Council Tax fraud - £133 million

- Blue Badge Scheme misuse – £46 million
  - Grant fraud - £35 million
  - Pension fraud - £7.1 million
6. Lincolnshire County Council has had dedicated and effective counter fraud resources for a number of years – the commitment to reducing fraud an error within the Council is strong and the team has achieved significant savings and recoveries over the years.
  7. The Local Government Fighting Fraud Locally Strategy and associated guidance provides us with ideas to further strengthen our counter fraud arrangements and will drive our work plans over the next few years.
  8. In July 2012 we reviewed the Council's Counter Fraud Policy to align our arrangements with the National Fraud Authority's strategic approach for Local Government organisations (*Acknowledge / Prevent / Pursue*). We also chose to incorporate the regulations associated with the Bribery Act 2010 which requires organisations to have "adequate procedures in place to prevent bribery".

## **Investigations into suspected fraud 2012/13**

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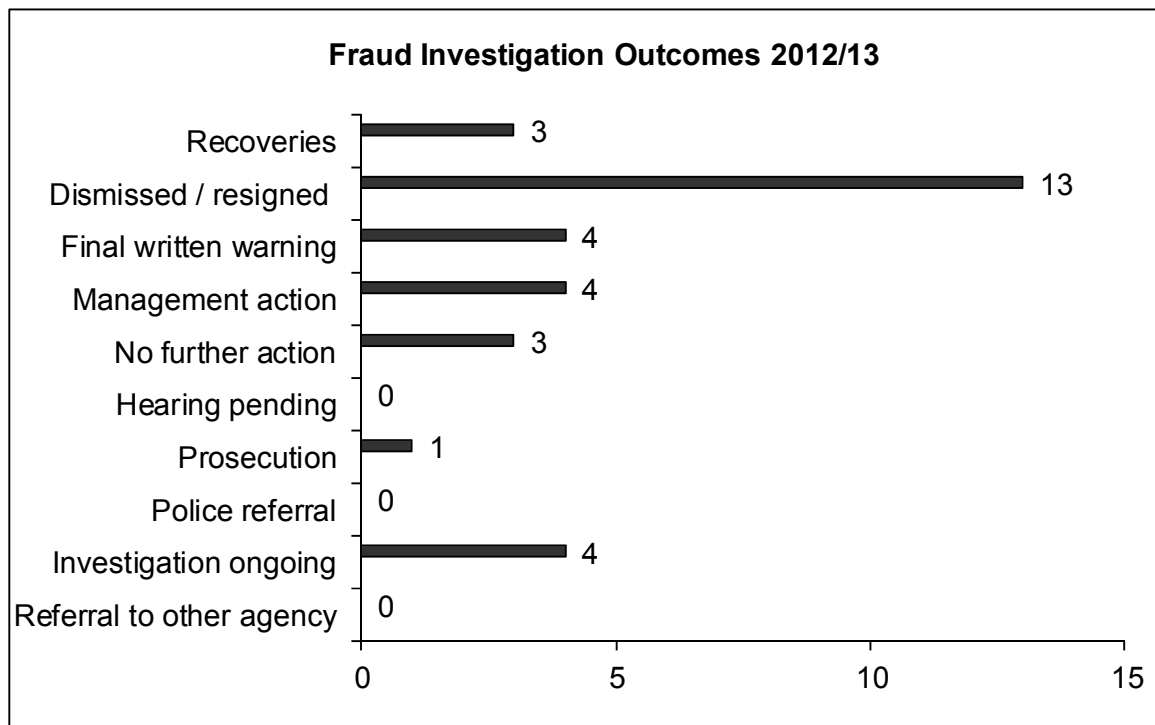
9. In year we received 14 new potential fraud referrals which is a slight drop in new cases from previous years. The total estimated value of fraud associated with our live cases during the year was £689,675.
10. Results during 2012/13:
  - Two managers of a former LCC provider have been charged with multiple counts of fraud amounting to £500k. The charges relate to offences committed over an 8 year period against vulnerable adults and fraud associated with the Council's contract with the provider. The case is expected to go to court later this year.
  - Treasurer of a pre-school (an early years provider) admitted stealing £30k and received an 18 months custodial sentence. The fraudster had no realisable assets (therefore no recovery possible under the Proceeds of Crime Act) but there is confiscation order against her which remains in place for the rest of her life.
11. The most common area of fraud this year (although the lowest in value) is the misuse of service user finances and has been a common theme over the past four years. Other common types of fraud we have experienced over the years include: abuse of position (for personal gains or gain for others), misuse of assets, procurement fraud and timesheet abuse.

12. The table below gives the Council's profile of fraud referrals over the last four years:

<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>	<b>No of instances 2012/13</b>
Abuse of Position	4	3	2	2
Bank Account / Creditor Payments	-	-	1	
Cheque Fraud	-	1	-	
VAT fraud	1	-	-	
Direct Payments	-	-	-	
Expenses	-	1	1	
Fundraising	-	-	-	
False Invoices	-	1	-	1
False Claims	-	1	-	
False Accounting	-	-	2	
Grants	2	1	2	
Insurance Fraud	-	1	3	
Imprest (Cash)	-	2	-	
Misuse of Assets	2	1	2	2
Payroll	-	3	2	2
Pension	-	-	1	
Procurement	3	3	2	
Recruitment Fraud				1
School Fund / Budget Share	1	-	-	
Service User Finances	6	2	3	5
Timesheet / Abuse of Time	3	1	1	1

13. In addition to the 14 referrals received in year, the team continued to investigate cases carried forward from the previous year. Our investigation work is still our most resource intensive activity. We have analysed the results from each case completed last year – the table below highlights the Council's zero tolerance to fraud and shows that we continue to impose tough and proportionate sanctions and work hard to ensure we recover as much loss as possible.

14. Outcomes relating to fraud cases completed / on-going during 2012/13:



15. During 2012/13 we have successfully recovered a total of **£160,427** lost through fraud – all recoveries related to cases (x3) affecting schools:

- Pension confiscation - £21,441
- Insurance - £111,741 (including investigator costs – 10% of convicted sum)
- Proceeds of Crime - £13,422
- Insurance - £13,148 (including investigators costs – 10% of convicted sum)
- Invoice scam – £675

In the previous year 2011/12 we successfully recovered a total of £851,000 – this brings the combined recovery total over the last two years to over £1 million.

16. One particular case involved potential funding irregularities and activity (by a former employee) which could have caused future losses to the Council estimated at £98k (in one year). The case was referred to another agency for further review – the Council has been able to take action to prevent any future funding losses in this area of business.
17. In the 2011/12 Annual Report we noted an increase in fraud cases perpetrated by individuals external to the Council – this did not continue in 2012/13 – we only had one external case. With the exception of the small invoicing scam reported

last year, we can still report that the highest value frauds we investigate tend to relate to external cases.

18. Following our investigations we produce action plans to reduce the risk of reoccurrence and improve controls, wherever necessary. In many of our cases the most common weakness is lack of supervision and / or management oversight. Our investigations have found that failure to apply these key controls can sometimes allow the fraudsters to operate unchallenged for long periods and in some cases reduces the strength of the case against the perpetrator when the irregularities are discovered.
19. We intend to raise awareness around common fraud themes during 2013/14 – our Counter Fraud Work Plan includes a new fraud awareness campaign which will include posters, leaflets, awareness sessions and guidance on good fraud prevention measures.

## **Proactive Work**

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20. We have reviewed the Council's Counter Fraud Policy incorporating all the latest best practice and regulatory updates to counter fraud and corruption. We have worked on designs for new posters and leaflets for both fraud and whistleblowing and intend to use these in our forthcoming fraud awareness campaign.
21. Throughout the year the team have been developing our data analytics capabilities and are now capable of extracting and analysing large volumes of data from the Council's key systems. This is one of the areas the NFA recommends we focus on– making better use of information and technology is the only way we can prevent and detect more fraud.
22. The team have applied this new capability to the Council's creditor payments systems and have produced repeatable scripts which can identify unusual trends, high value or unexpected transactions and other potential irregularities. So far the outcomes are compliance related although work is still on-going on following up some of the more unusual transactions.
23. We will use data analytics on other high risk fraud areas over the coming years – the 2013/14 work plan includes an exercise on payroll and expenses.
24. We have completed the fieldwork on a proactive fraud exercise on ASC direct payments and will report the outcomes shortly – this work has involved fraud awareness sessions with principal practitioners in Adult Social Care which has already resulted in queries and requests for advice from social workers. Our proactive work identified three potentially irregular direct payments cases requiring further investigation – this work is on-going.
25. The team have started work on the Audit Commission's National Fraud Initiative data matches – this process is mandatory occurring every 2 years. The Council's data from key financial systems such as payroll, pensions, creditors and private

residential care has been matched with data from other public and private sector bodies across the country.

26. We received the results earlier this year (19,000 potential matches) and the team have started work investigating the recommended (higher risk) matches i.e. those where there is the potential for fraud or overpayments. We have not, so far, identified any recovery potential but the results do take some time to come to fruition – our work will continue over the year. This has been a successful exercise for the Council in previous years – we recovered £60k in overpayments in 2011 and £113k in 2009.
27. One area we have carried forward to the 2103/14 Work Plan is the Council's fraud risk assessment. We have continually updated our fraud risk profile to address emerging fraud risks highlighted locally through our Midland County Council Fraud Group and nationally via the NFA and Audit Commission. We intend to complete a more detailed reassessment with each Council directorate to ensure we maintain the right focus for our future proactive work.

## **Conclusion and Next Steps**

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28. The Counter Fraud and Investigations team have achieved almost 90% of the counter fraud work plan for 2012/13 – the investigation work remains our most resource intensive activity and demand with the new and on-going cases over the year has been significant.
29. The outcomes detailed at point 14 and the total loss recoveries over the year illustrate that the counter fraud arrangements continue to remain robust and effective.
30. The 2013/14 Counter Fraud Work Plan focuses on raising awareness and will ensure a greater emphasis on fraud prevention and detection utilising, where possible, the best practice guidance and tools provided by the NFA.



**Counter Fraud Work Plan 2012/13**

Area	Days	Indicative Scope	Start Date	End Date	Status
<b>Counter Fraud Arrangements</b>					
CF Data analytics – development		To better target proactive resource	October 2012	March 2013	Final phase c/f to I 2013/14 plan
Midland Counties Fraud Group		Attend quarterly meetings to share intelligence, best practice and develop training opportunities	April 2012	March 2013	Complete
Lincolnshire Authorities Fraud Forum		Lead, organise & attend meetings, share local intelligence, best practice & work on joint initiatives	April 2012	March 2013	Not progressed
CF Champion Liaison		Focus on awareness, progress against plan & emerging themes & fraud risks within Lincolnshire			Complete
<b>Sub Total</b>	<b>40</b>				
<b>Anti Fraud Culture</b>					
Raising awareness – engagement and liaison		Members, managers, staff, key partners	July 2012	Sept 2012	Awareness sessions completed with ASC staff more planned for 2013/14
Website maintenance – updates		Warnings of emerging fraud risks, case summaries on proven cases, prevention information	April 2012	March 2013	Complete
Fraud bulletins		Communications via daily news	April	March	Complete, where

Area	Days	Indicative Scope	Start Date	End Date	Status
		bulletins, Audit Lincolnshire website etc	2012	2013	appropriate
Poster campaign		Joint county / district initiative	April 2012		Designs being finalised – launch to c/f to 2013/14 plan
Annual Reports 11/12 – Counter Fraud and Whistleblowing		Submission to Audit Committee	April 2012	June 2012	Complete
<b>Sub Total</b>	<b>60</b>				
<b>Deterring Fraud</b>					
Publicising successful prosecutions, outcomes and key developments		Echo, County News, News Lincs, Audit Lincolnshire website	April 2012	March 2013	Complete
<b>Sub Total</b>	<b>5</b>				
<b>Preventing Fraud</b>					
Review & re-launch Counter Fraud & Money Laundering Policies		Link with work on further developing anti-fraud culture	April 2012	June 2012	Fraud Policy completed Money Laundering Policy (low priority) – rescheduled to 2013/14
Recommendations tracker		Agree and follow up management action plans arising out of investigations and proactive fraud exercises	April 2012	March 2013	
Internal Audit and Risk Management liaison		Intelligence sharing – attendance at team meetings			
<b>Sub Total</b>	<b>20</b>				
<b>Detecting Fraud</b>					
Revisit fraud risk assessment		Assess within all directorates via liaison arrangements	April 2012	June 2012	Deferred - updated risk profile c/f to 2013/14

Area	Days	Indicative Scope	Start Date	End Date	Status
Continuous fraud testing (fraud & error)		Linked with due diligence quarterly testing	July 2012	March 2013	Complete
Proactive fraud exercises		Based on national and local emerging risk areas	July 2012	March 2013	Direct Payments – fieldwork completed
National Fraud Initiative 2012/13		Preparation for data upload and initial work on LCC matches 2013	Sept 2012	March 2013	Data upload successful – review of data matches on-going
<b>Sub Total</b>	<b>160</b>				
<b>Investigating Fraud</b>					
Memorandum of Understanding with Police		Arrangements with Economic Crime Unit contact soon to end – need for formal agreement.	April 2012	June 2012	Not pursued
Fraud Investigation		In line with investigation manual and recommended best practice	April 2012	March 2013	
<b>Sub Total</b>	<b>300</b>				
<b>Sanctions &amp; Redress</b>					
Pursue civil, disciplinary and/or criminal sanctions		Picked up during investigation process	April 2012	March 2013	
Identify and recover all losses		Identified during investigation process and recovery action sought through POCA, Insurance and legal means.	April 2012	March 2013	£160k total recovery
Contingency	<b>65</b>	To enable flexibility in the plan to address emerging risks and/or investigative demand	April 2012	March 2013	Transferred to meet investigative demand
<b>Total Work Plan for 2012/13</b>	<b>650</b>				

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