COUNTER FRAUD
Services

Lincolnshire County Council

Counter Fraud Annual Report 2017-18

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COUNTY COUNCIL
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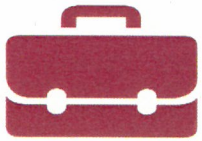

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The matters raised in this report are only those that came to our attention during the course of our work – there may be issues that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual engagements or were not bought 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 in countering fraud and corruption. The report also informs the committee of performance against the 2017/18 Counter Fraud Work Plan and the outcomes of our proactive counter fraud work and investigations undertaken.

2. The Counter Fraud and Investigation Team has delivered 84% of the scheduled tasks included within the 2017/18 Counter Fraud Work Plan – see Appendix B. This is an improvement on the proportion of work delivered in the previous year (70%). While fewer referrals were made within the year, several long running cases were brought forward from 2016/17 and these tended to be complex and time consuming in nature - this can impact upon the team's ability to deliver the work included in the Counter Fraud Work Plan. The main area affected was the development and update of policies and procedures – these have been deferred to planned work in 2018/19 where they will be treated as a priority.

3. Our recoveries increased to over £124k in 2017/18 compared to £68k reported in 2016/17. Our work in 2017/18 also identified further potential recoveries of £55k in current live cases that we continue to investigate.

4. We have continued our efforts to promote fraud awareness on both specific and general fraud themes. We are highly encouraged by the successful response and feedback received on the Fraud Awareness e-learning course developed in conjunction with the Lincolnshire Counter Fraud Partnership. We have also taken steps to address the consistently high level of referrals from schools by delivering regular communications targeted at raising awareness of fraud risks, responsibilities for prevention and methods of reporting.

5. We completed the update of the council's Fraud Risk Register and believe that this is a significant development in terms of our understanding and knowledge of the fraud risks that we face. We feel that the Council is now better placed to effectively respond to fraud as a result of this extensive review. The results will be used to drive our future planning and identify priority work and also emerging threats.

6. We have already taken action to respond to those fraud risks highlighted as high risk through our recent proactive work with schools. The work on procurement fraud is currently ongoing and the planned work to develop our understanding of cyber fraud is due to commence. We will also ensure that the Fraud Risk Register is constantly updated with any relevant intelligence that will inform our response

Referrals

7. We received 9 new referrals of suspected fraud during 2017/18 – this is less than the number of referrals received in the previous year. However, the cases investigated have tended to be more complex and therefore take more time to complete. It should also be noted that the amounts recovered in 2017/18 represent a significant increase on the levels recouped in recent years.

8 In 2017/18 we continued to receive a higher proportion of referrals relating to school and procurement fraud – this is demonstrated in the charts below (see Figure 1 on page 6). This has been a common theme in recent years and our response has been to focus on proactive exercises – the aims being to raise awareness and to actively prevent and detect fraud in these high risk areas. Frauds that occur in schools can be wide ranging and procurement fraud remains the largest single area of fraud loss within local government, and we will continue to deliver proactive work in this area in 2018/19. Consistent with previous years, we received referrals involving false accounting and expenses fraud.

9. We have noticed a slight increase in reports relating to social care fraud cases - one case was referred in 2017/18 and enquiries are currently ongoing. There are several types of social care fraud that can occur including direct payment fraud, deprivation of capital and financial abuse and we intend to refresh our counter fraud efforts in 2018/19 to combat this threat.

10. Referrals received over the last 5 years can be found at Appendix C to this report.

Fraud Investigations 2017/18

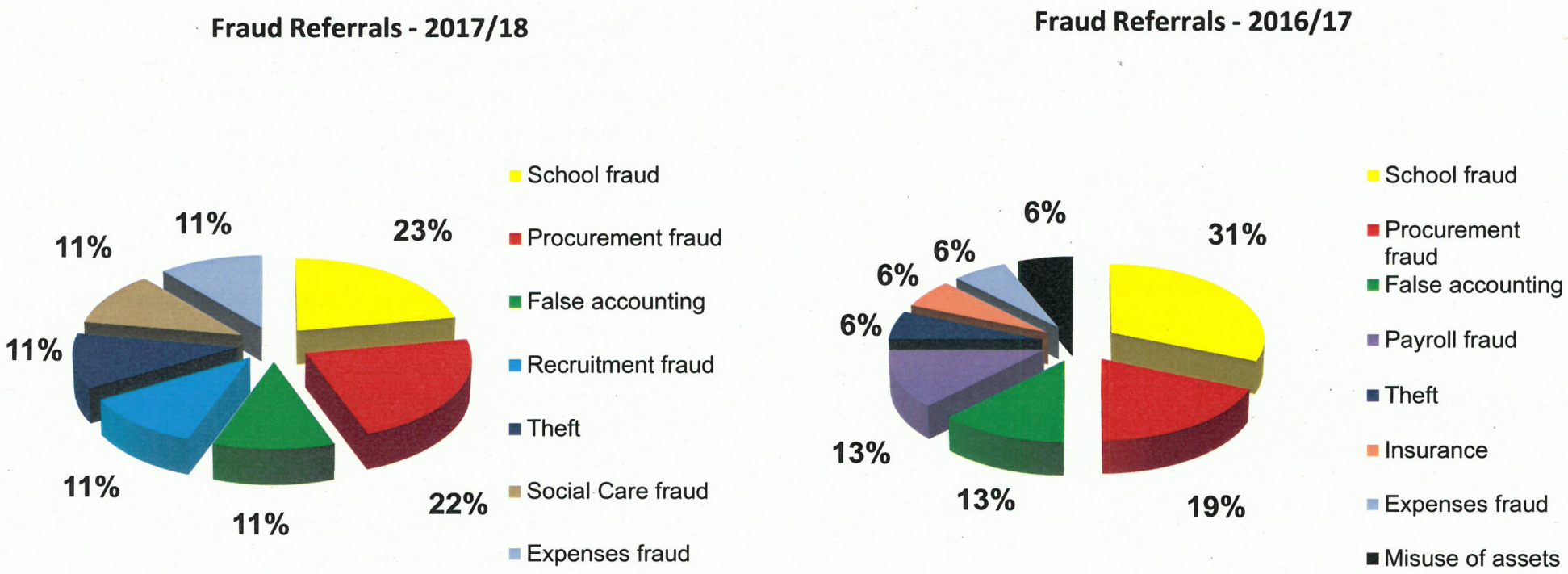


Figure 1 – Comparison of Fraud Referrals (by type)

Investigations

11. As noted in Paragraph 8, we received 9 referrals during the year – 4 of these cases only involved preliminary enquiries. However, 5 cases did progress to full investigations. In addition, 4 long running cases were brought forward from the previous year (2016/17) – 3 of these are still ongoing

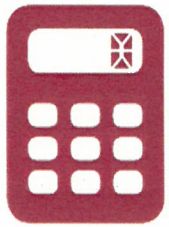
12. Results from investigations during 2017/18:

- Acting on intelligence from colleagues at another County Council, we made some enquiries into one of our providers and found there was a potential fraud against the council. We negotiated with the provider and recovered the full value of the fraud, and in accordance with the council's zero tolerance stance to fraud, we have referred the matter to Action Fraud with a view to potential criminal proceedings.

- We recently completed an investigation at a school involving fraud perpetrated by an employee. Issues under investigation included manipulation of payroll details and misuse of school assets to make personal purchases. The employee was dismissed following a disciplinary process and the case was referred to Lincolnshire Police. The individual pleaded guilty at court and received a suspended sentence. We were able to make a full recovery of over £22,000 from this case.

- Following a lengthy and complex investigation in conjunction with Lincolnshire Police we secured a prosecution and custodial sentence for a case involving an employee from one of the Council's partners. We identified fraud valued at £39k and, in line with our Counter Fraud Policy, continue to work to recover these losses.

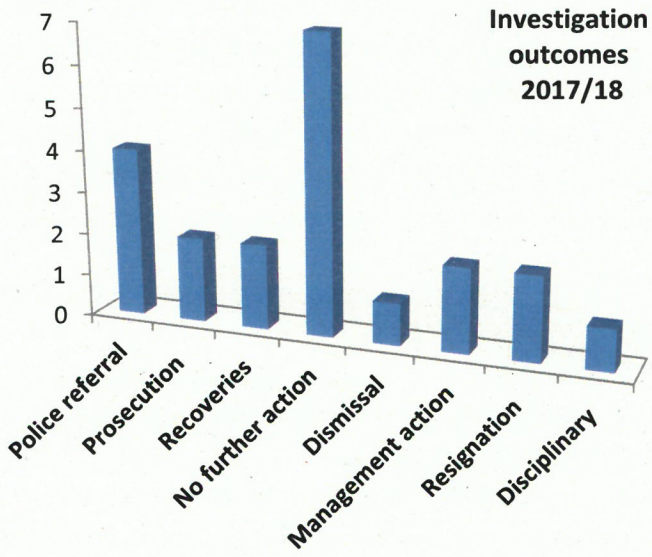
13. We will continue to conduct follow up reviews to assess the impact of actions taken following learning points identified within previous investigations.

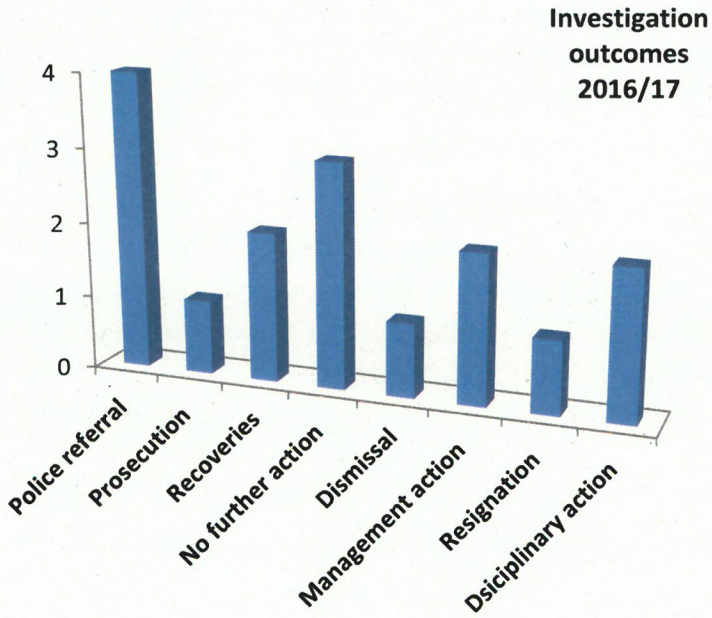


Outcomes

14. We conducted analysis of the cases investigated in 2017/18 and this has been included within Figure 2 below. The results within both charts (see police referrals, prosecutions and recoveries) demonstrate that we continue to refer matters to the Police on a regular basis with a view to applying sanctions and seeking redress – these are two of the components of the our response to fraud and are documented within the Council's Counter Fraud Policy,

Figure 2 – Comparison of Investigation outcomes





Recoveries

15. We are pleased with the level of recoveries in 2017/18 from investigations and the National Fraud Initiative (NFI) – we have been able to recoup over £124k during the year and this represents a significant increase (82%) on the previous year. As noted within paragraph 14, we believe this demonstrates the team's ability to secure recovery of council funds through various means. In 2017/18 our recoveries included:

    - £90k from negotiation with a contractor under investigation for potentially fraudulent activity within their delivery of services to the Council

    - £22k was recovered directly from a school employee found guilty of fraud against the Council

    - Duplicate payments of over £12k were identified and recovered through use of data analysis skills within the team and were identified through our data matching processes that form the NFI exercise

16. We have also further areas where we hope to make more recoveries in the short term. These are ongoing cases that we continue to pursue to ensure valuable resources are not lost:

    - We are liaising with Legal Services Lincolnshire to secure recovery of £39k in relation to a fraud investigation completed during 2017/18

    - We are working with the council's partners to recover teacher pension overpayments made. These are valued at £17k and were identified through the National Fraud Initiative exercise.

17. While recoveries are not the only measure of success, we are highly encouraged by the level of fraud losses clawed back into council funds during the year – every pound recovered can be ploughed back into provision of services.

Awareness

18. Promoting fraud awareness is key in building a culture where fraud and corruption are unacceptable and everybody plays a part in eradicating them – this is one of the main visions of the Local Government Fraud Strategy (known as Fighting Fraud and Corruption Locally).

19. To help promote awareness across the council, we have been involved in the development and implementation of a Fraud Awareness e-learning course – this is available on the Lincs2Learn platform. The package emphasises the theme that fraud prevention is the responsibility of all stakeholders. We are very pleased with level of participation and feedback received on the course. We have recently made it available to schools and are pleased that there has again been a successful 'take up' of the training.

20. During 2017/18, we refreshed the Council's Fraud Risk Register (please refer to paragraphs 21 - 24). This was a key piece of work that will drive much of our proactive efforts to counter fraud. It highlighted areas of fraud where we believe that fraud risks are heightened – these included fraud that occurs in schools and procurement fraud.

21. We have responded to these threats by raising awareness through the following channels:

- Schools
    - As noted in paragraph 18, we have released the e-learning package to schools
    - In liaison with the Schools Finance Team, we have produced regular communications on general and specific fraud themes
    - We have delivered awareness sessions to School Business Managers through their Financial Topics sessions and also Headteachers as part of a series of School Leadership briefings. We are pleased with the response to these sessions and have since received referrals as a direct result

- Procurement Fraud
    - We are working with the council's Commercial Team and officers from devolved teams responsible for procurement and contract management. We have issued information on 'red flags' that may indicate and help to identify this type of fraud
    - We have also agreed with the Commercial Team that fraud awareness will form part of training for procurement officers

Fraud Risk Register

22. A 'Health Check' review of our counter fraud arrangements was conducted in March 2017. One of the key recommendations from this exercise was around identification and assessment of fraud risks to help improve understanding of the fraud threat and to align resources accordingly - this is a key area within Fighting Fraud and Corruption Locally. Acknowledgement and awareness of fraud risks and patterns allows a more effective response.

23. In accordance with this approach, we have developed and refreshed the Fraud Risk Register. The results from the updated risk assessment have already been used to guide priority counter fraud work and will be utilised for planning into the longer term.

24. We reported the outcomes of this report to the Audit Committee in September 2017, but the Fraud Risk Register is a 'live' document and we constantly update supporting information to ensure we have accurate, updated knowledge and understanding of specific fraud risks at any one time.

25. We identified 26 separate fraud risk categories (please refer to Appendix D) and for each area identified where the risk currently sits within a matrix comparing likelihood and impact.

The distribution of risk assessments demonstrate that the Council manages its fraud risks effectively and therefore assurance can be provided. 50% of the fraud risk categories are classed as Green or 'low' risk with much of the remainder assessed as Amber (medium risk). Some of the fraud risks are already at their target level so focus is more aimed at ensuring fraud awareness is maintained and controls continue to be applied in these areas.

26. There are particular risks (classed as Amber and Red) within the assessment where we consider the fraud risks are increased, and were identified as priority for review:

- Procurement and contract management
- Social Care (particularly within Adult Care)
- Schools
- Cyber Fraud

Other Proactive Work

27. There have been recent high level changes in the management of the CIPFA Counter Fraud Centre and this has affected the development of a National framework and standards for Counter Fraud in Local Government. The aim of the standards is to provide more structure for councils to manage the risks of fraud and corruption. The preferred option is that this process is now driven by an Oversight Board in conjunction with local councils – we aim to be involved at the forefront of that exercise wherever applicable.

28. We continue to lead the Midland Counties Fraud Group – this forum consists of representatives from 18 councils across the region. We host regular meetings to discuss fraud best practice, developments and 'experiences'. This is a highly valuable network in terms of fraud knowledge sharing and the group's value was demonstrated recently where a neighbouring authority provided intelligence about a high risk contract area. This directly allowed us to commence an investigation and ultimately make a substantial recovery of losses through fraud against the council.

29. We seek to benchmark counter fraud results and information wherever possible. Our main source of benchmarking is our participation in the annual CIPFA Fraud and Corruption Tracker – we submit counter fraud and investigation data for the survey and review the published results to identify any trends or patterns that may guide and influence our own response and planning.

30. The Lincolnshire Counter Fraud Partnership (LCFP) consists of eight Lincolnshire councils (with Lincolnshire County Council acting as lead partner) and was created in 2014. The aim of the arrangement was to work together to develop a strong, effective and sustained response to the threat of fraud across the county.

31. The partnership has now grown to include Lincolnshire Police representatives and it is pleasing that all partners have signed up and agreed continued funding to support the group's activities in 2018/19 and maintain capacity.

32. Valuable work delivered through the partnership in 2017/18 has included:

- A continued focus on fraud awareness work to develop a 'first line of defence' in tackling fraud – the partnership has been heavily involved in the promotion of fraud awareness and played a leading role in the development of the successful fraud awareness e-learning training course. Further examples of awareness work driven by the partnership include sessions delivered to Headteachers and School Business Managers.

- Regular liaison and sharing of information on scams, alerts and fraud cases

- Invest to Save schemes – a Single Person Discount review is ongoing and a managed service review for Council Tax Reduction (CTR) is planned for 2018/19. These schemes will support District Council partners to increase Council Tax revenue collection through reduced fraud losses.

33. Partnership priorities for 2018 /19 include:

- Pro-active work to develop knowledge and awareness of the Cyber Fraud threat. This is a rapidly evolving risk where we wish to develop an effective response

- Fraud Risk Register updates including a refresh of partner authorities 'Top 5' fraud risk areas

- Training needs have been highlighted in areas including Identity Fraud and Anti-money laundering. Partners will liaise to assess the most appropriate options for delivery

- LCFP will work with a newly created sub-group of the Serious Organised Crime multi-agency board, which is part of the Lincolnshire Community Safety Partnership.

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
CIPFA Code of Practice : Key Principle A – Acknowledge Responsibility				
A1 - Acknowledge the threat of fraud and corruption A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption	• Engagement and training • Fraud awareness • Website updates • Response to the Home Office Report on Serious and Organised Crime • Launch and promotion of e-learning package (in conjunction with Lincolnshire Counter Fraud Partnership)	Briefing sessions – training for members, management and staff (general and specific fraud areas), including induction training for new members Annual Plan for Counter Fraud activity to Audit Committee Continued development of fraud resilience through the Lincolnshire Counter Fraud Partnership (LCFP) Roll out of new fraud e-learning module Promotion and publicity through a 'fraud awareness fortnight' Updates, risks, results and information (various publications and channels) Response to Serious Organised Crime Pilot Project across Lincolnshire		Briefing sessions delivered to School Business Managers and Headteachers. Fraud risk briefings delivered to DMT's Annual Counter Fraud Work Plan presented – June 2017 Completed - throughout 2017/18 Completed – April 2017 Completed – July 2017 Completed - throughout 2017/18 Completed – April 2017
Days (8%)			**62**	

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
CIPFA Code of Practice : Key Principle B – Identify Risks				
B1 - Fraud risks are routinely considered as part of risk management arrangements B2 - The organisation identifies the risks of fraud and corruption B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures B4 – The organisation evaluates the harm to its aims and objectives	• Research and intelligence gathering to highlight emerging risks • Benchmarking activity • Update fraud risk profile • Analysis and publication of fraud losses	Participation in Midlands Fraud Group, work with TEICCAF advisory group, CIPFA Counter Fraud Centre, follow up of NAFN alerts and horizon scanning for legislative relevant changes Review and update of the Council's Fraud Risk register. Participation in CIPFA Fraud and Corruption Tracker (CFaCT) Annual Survey Annual and progress reports of counter fraud activity to Audit Committee Data analysis & risk assessment: • for counter fraud proactive exercises • to support key control and continuous testing		Completed - throughout 2017/18 (including Midlands Fraud Group meeting in July 2017) Completed & presented to Audit Committee – September 2017 Completed – June 2017 Completed - Annual report presented in July 2017 & Progress Report presented in November 2017 Completed - work commenced on proactive exercises in October 2017 Data analysis for continuous testing from June 2017 Specific actions built into 2017/18

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
				and 2018/19 Counter Fraud Plans
		Update responses to the LCC Fraud Health Check.		Health Check review outstanding but CFIT will be subject to external review in 2018/19
Days (4%)			**35**	
CIPFA Code of Practice : Key Principle C – Develop a Strategy				
C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks	• Counter Fraud Strategy • Review and refresh policy documents	Continue to develop Counter Fraud Strategy		Ongoing - review started in Quarter 2
C2 - Strategy includes the organisation's use of joint working or partnership approaches		Review and updates of Policies including: • Counter Fraud Policy • Fraud Response Plan • Fraud Communication Strategy • Money Laundering Policy (ML) • Investigation Practice Notes		Ongoing – defer to 2018/19 Ongoing – defer to 2018/19 Completed Ongoing – defer to 2018/19 Completed
C3 - The strategy includes both proactive and responsive approaches: Proactive action: • Develop counter fraud culture • Prevent fraud through		Activity planning of pro-active counter fraud work - response to risk assessment and data analytics.		Completed - Risk assessment completed and priority areas identified – September 2017

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
implementation of robust internal controls • Use of techniques such as data matching • Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters Responsive action: • Detecting fraud through data and intelligence analysis • Implementing effective whistleblowing arrangements • Investigating fraud referrals • Applying sanctions and seeking redress				
Days (7%)			**52**	

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
CIPFA Code of Practice : Key Principle D – Provide Resources				
D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk D2 - The organisation utilises an appropriate mix of experienced and skilled staff D3 - The organisation grants counter fraud staff unhindered access to its employees D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing	• Lincolnshire Counter Fraud Partnership • Midlands Fraud Group • Collaboration with and support to Internal Auditors at Assurance Lincolnshire • Manage pool of Conduct Investigators	Fraud advice across LCC services areas and to strategic partners. Management of Lincolnshire Authorities Whistleblowing Facility. Development of internal data analytics capability – system upgrade and training Response to Serious Organised Crime Pilot Project across Lincolnshire Use of pooled funding from Lincolnshire's District Councils and Lincolnshire Police Contribution for provision of support to Lincolnshire Counter Fraud Partnership Delivery of 3 LCFP partnership meetings Engagement with national and regional best practice groups including co-ordination of Midland Fraud Group meetings		Completed - throughout 2017/18 Completed - throughout 2017/18 Outstanding – issue with IT capability therefore not within team control Initial task completed – April 2017. Further work planned for 2018/19 Completed - throughout 2017/18 Completed Completed – July 2017 & February 2018
Days (7%)			**60**	

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
CIPFA Code of Practice : Key Principle E – Take Action				
E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy E2 - Plans and operations are aligned to the strategy E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing E4 - Providing for independent assurance over fraud risk management, strategy and activities 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	• Response to National Fraud Initiative 2016/17 results • Proactive counter fraud exercises • Data analysis • Investigations – whistleblowing referrals • Investigations – fraud • Applications of sanctions • Seeking redress • Advice • Promotion of counter fraud activity • Organisational learning • Reports to Audit Committee	Analysis of data matches identified through National Fraud Initiative 2016/17 Proactive counter fraud exercises: • Procurement fraud (specific areas) • Schools Investigations arising from whistleblowing reports and frauds identified Production of management reports and action plans to aid organizational learning – investigation outcomes and learning points Applications of sanctions – civil, disciplinary and criminal Seeking redress where successful prosecutions are achieved Promotion and publicity work through various media channels including production of a new fraud awareness		Completed Contract Register review and analysis completed – but further deeper dive exercise due in 2018/19 Completed Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - throughout 2017/18

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
* Note also Specific Step – C3		leaflet for distribution Provision of advice on fraud risks and mitigating controls Promotion of fraud prevention measures Production of progress and annual counter fraud and whistleblowing reports to the Audit Committee		Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - Annual report presented in July 2017 & Progress Report presented in November 2017
Days (54%)			**435**	
TOTAL DAYS ALLOCATED			**644**	
Contingency (20%)			**161**	

Referrals – 2013/14 to 2017/18 (Appendix C)

Fraud Type	2013/14	2014/15	2015/16	2016/17	2017/18
Abuse of position	-	-	-	-	
Direct Payments	3	2	2	-	1
Expenses fraud	1	-	2	1	1
False invoices	-	-	1	-	
False claims	-	2	-	-	
False accounting	-	-	-	2	1
Insurance fraud	-	-	-	1	
Imprest (cash)	1	-	-	-	
Misuse of assets	-	2	2	1	
Payroll	-	2	-	2	
Procurement	1	2	2	3	2
Recruitment	1	-	-	-	1
School Fund/Budget	2	-	2	5	2
Financial abuse	-	12	-	-	
Theft	-	-	-	1	1
Timesheet/abuse of time	-	3	-	-	
TOTAL CASES	9	25	11	16	9

Fraud Risk Assessment – Summary (Appendix D)

Likelihood						Description of occurrence	
	4 Almost certain			Cyber fraud			Occurs several times per year – it will happen
	3 Probable	Schools & establishments Payroll & employees Pensions fraud Insurance fraud	Contracting/Contract Management Procurement fraud Social Care fraud	Council Tax fraud			It has happened before – and could happen again
	2 Possible	Income Collection Payments/Creditors BACS & Cheque fraud False accounting Blue Badge fraud Identity fraud	Housing fraud Business Rates Housing Benefit fraud	Corruption (including bribery)			It may happen but it would be unusual
	1 Hardly ever	Debt Management Petty Cash & imprest accounts Electoral fraud	Property, land & equipment Grants	Money Laundering Investment/Treasury Management			Never heard of it occurring – we cannot imagine it occurring
		1 Negligible	2 Minor	3 Major	4 Critical		
		Impact					