



Counter Fraud Progress Report



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Introduction

1. The purpose of this report is to:

- Provide an update on our fraud investigation activities
- Report on progress against our Counter Fraud Work Plan 2013/14

Key Messages

2. Counter Fraud Pro-active Work

Data analytics work on the Council's creditor payments system identified a group of potentially fraudulent transactions in one area of the business – our investigators were already working a case in this area and were aware of these irregularities. The subject of this investigation subsequently resigned and the Authority sold unwanted assets to recover some of the loss.

This data exercise also highlighted some compliance issues which will be reported as part of our due diligence audit work. We will now be using the repeatable scripts on data extracted each quarter to enhance our due diligence testing of the creditors system.

We are using this learning on a joint fraud proactive / due diligence exercise on expenses – this is a recognised fraud risk area requiring regular audit and routine probity work.

We have completed a comprehensive review of our counter fraud and investigation practice notes which will form the revised standards for our quality assurance process.

We have developed new whistleblowing and counter fraud promotional material which shall be used over the next few months, supporting the re-launch of the Council's whistleblowing policy.

Our work on the National Fraud Initiative has so far identified £15.6k of recovery potential – no issues of a fraudulent nature. This recovery figure is significantly down on previous exercises – we believe this is due to improved processes in the two areas of business which previously had high overpayments (pensions and private residential care providers).

3. Investigations

We have completed five cases since our last progress report – our work resulted in management action in one case and a further four resignations.

There are two live fraud investigations, both of which are with the Police. One case of contractor fraud is awaiting trial later this year and the other case file (relating to a mandate fraud) is with the Crown Prosecution Service for advice.

Pro-active work

4. Using our enhanced data analytics capabilities we are now in the process of analysing expenses payments made to staff and councillors. This year we have pooled resources from our due diligence and fraud proactive work plans to maximise the use of the data extract – we are carrying out compliance work as well as investigating unusual trends and outliers identified through our detailed analysis.
5. We are in the process of finalising new posters to promote our whistleblowing and counter fraud arrangements. We have also developed a whistleblowing leaflet to coincide with the re-launch of the Council's revised whistleblowing policy. This promotional material should be ready by the end of the month for distribution from October 2013 onwards and will be used in our work to raise awareness with staff, councillors, contractors and service users.
6. We have completed a comprehensive review of our Counter Fraud and Investigation Practice Notes based on our own experiences, best practice and guides issued by the National Fraud Authority. Following Head of Audit approval, these Practice Notes will provide the standards for all counter fraud proactive and investigation work and will form the framework for our quality assurance process.
7. So far our work on the 2012/13 National Fraud Initiative (NFI) data matches has identified recovery potential of £15.6k. This is largely made up of overpayments and VAT errors – we have not identified any potentially fraudulent transactions. This figure is substantially down on previous NFI exercises:
 - 2011 - £60k NFI recoveries
 - 2009 - £113k NFI recoveries

In the 2011 exercise the highest recoveries fell within two areas of the business: pensions and payments to residential care providers. Recovery potential is down in these two areas due to improved processes:

- the Pensions team employ a tracing agency which significantly improves the successful recovery of payments following the death of a pensioner
- quicker identification and recovery of overpayments to Adult private residential care providers (following the death of a resident) – we understand this has resulted from better handling of queries and a consequent improved relationship with providers

These results provide assurances on the effectiveness of the Council's arrangements to limit the potential for overpayments and loss in these areas of the business.

8. Work is underway to investigate potential irregularities associated with three recipients of Adult Care direct payments – these issues were identified during a

proactive exercise in this area. We shall report our findings at the conclusion of our enquiries.

9. Over the next few months we shall be liaising with the directorates to revisit the Council's counter fraud risk assessment. We already have a good understanding of where our key fraud risks lie – this intelligence comes from our own investigation experience over the years, together with information sharing at regional level and national publications on emerging fraud risks. The purpose of our work with directorates is to:

- establish whether any new fraud risks are emerging in their areas of business
- assess the impact of any new ways of working (fraud exposure)
- identify if there are any high risk areas that should be the focus of a separate counter fraud proactive exercise
- raise awareness and share promotional material

Investigations

10. We currently have 2 live fraud investigations, both of which have been referred to the Police:

- 1 x contractor fraud (pending court trial)
- 1 x mandate fraud (prosecution file with the Crown Prosecution Service)

The Police have now closed one of our longest running cases of suspected contract fraud – the Crown Prosecution Service assessed the prosecution file and concluded that they did not have enough evidence to support a prosecution due largely to the complex nature of the allegation and the evidence required to bring a successful conclusion. The Council had concluded their investigations into this matter some time ago and successfully negotiated a £500k recovery.

11. We presented our last counter fraud progress report in April 2013 – since then we have completed five internal fraud investigations resulting in:

- 4 resignations
- 1 written warning

These cases involved suspected bias in the award of contracts, abuse of position, misuse of resources, abuse of time, recruitment fraud and false representation.

There was no recovery opportunity given the nature of the cases but the estimated value of fraud which we stopped was in the region of £61k. We have also produced supplementary reports and/or actions plans where we identified control weaknesses and organisational learning. Where appropriate, we will

provide the Committee with summary reports for information, along with any outstanding agreed recommendations.

Progress Against Plan

12. The Counter Fraud Work Plan at Appendix A provides information on progress against plan – much of our work is on-going and we shall be reporting our outcomes throughout the remainder of the year.

Other Matters of Interest

13. The National Fraud Authority (NFA) issued its fourth Annual Fraud Indicator in June of this year – their report aims to highlight the potential scale of the problem. It puts the annual loss to the UK economy from fraud at £52 billion – this is based on £15.5 billion of *identified* fraud losses and £36.5 billion *hidden* fraud losses. The estimated loss to Local Government each year is £2.1 billion and the report highlights the public sector as an "attractive target" for fraudsters. More information of the types of frauds in Local Government and other public sector organisations can be found at www.gov.uk/government/organisations/national-fraud-authority.
14. Part of the NFA's work had been to set up a good practice web bank for local authorities – this is owned and managed by CIPFA. The National Fraud Authority has recently completed work on three areas – case building, asset recovery and fraud risks – we are using these guides to update our own investigation practice notes.
15. The NFA has also started pilots in three emerging risk areas: schools, personal budgets (direct payments) and business rates – these pilots will be run by the Fighting Fraud Locally Board.
16. Intelligence sharing is known to be an effective way of preventing, detecting and deterring fraud and the NFA, along with public and private sector partners, are looking at the concept of a Counter Fraud Checking Service. This would bring together confirmed fraud data from public and private sectors to check new applications for benefits and other services (for individual suitability and eligibility). There are currently a number of high level assumptions made about the potential benefits of such a checking service but the NFA are currently developing a robust economic case which will involve:
- an exchange of known fraud data (HMRC, DWP, SOCA, insurance and banking sectors)
 - further research on benefits and costs

Counter Fraud Work Plan 2013/14

Appendix A

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
Culture					
Engagement and training	Briefings sessions / training for members, management, staff, key partners		October 2013	March 2014	Planning stage
Website maintenance	Updates / warnings of emerging fraud risks, case summaries, results and prevention information		November 2013		
Awareness Campaign	Posters, leaflets, e-learning tool to rejuvenate staff awareness		August 2013	November 2013	On-going (on track)
Sub Total		60			
Deterrence					
Publicity on counter fraud activities	Linked to awareness campaign – programme of internal/external communications covering: <ul style="list-style-type: none"> ▪ Counter fraud team ▪ Proactive work, including NFI ▪ Investigation outcomes / prosecutions ▪ Fraud prevention measures 		April 2013	March 2014	On-going

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
	<ul style="list-style-type: none"> ▪ Counter fraud responsibilities 				
Sub Total		20			
Prevention					
Organisational learning	Supplementary reports and actions plans arising out of investigation work		April 2013	March 2014	On-going
Data analytics	Further development / use of data analytics: <ul style="list-style-type: none"> ▪ Creditors / Procurement ▪ Payroll ▪ Expenses, including credit cards and members allowances 		April 2013	June 2014	Complete On-going
Advice	Enhancing fraud controls and process – new and existing systems				
Sub Total		40			
Detection					
Update Fraud Risk Profile	Incorporating emerging risk issues and results from local risk assessment		October 2013	November 2013	

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
Proactive fraud exercises	Based on national and local emerging risks		April 2013	March 2014	Expenses and direct payments on-going
National Fraud Initiative 2012/13	Review and investigation of Council matches / responding to data requests from other public sector bodies		April 2013	March 2014	All high risk matches and selected medium risk matches validated.
Sub Total		160			
Investigation					
Fraud Investigation	In line with investigation manual and recommended best practice		April 2013	March 2014	On-going
Sub Total		300			
Sanctions and Redress					
Pursue civil, disciplinary and/or criminal sanctions	Action taken during investigation process		April 2013	March 2014	On-going
Identify and recover losses	Identified during investigation – recovery action through Proceeds of Crime Act, Insurance and legal means		April 2013	March 2014	On-going
Sub Total		5			
Contingency					
Advice & Liaison			April 2013	March 2014	
Sub Total		65			
Grand Total		650			

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