



Counter Fraud Annual Report 2013/2014

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Contents

	Page
Introduction	1
Background	1-2
Investigations into suspected fraud	2-6
Proactive Work	6-8
Protecting the Public Purse	8
Conclusion and next steps	8-9
Counter Fraud Work Plan 2013/14 - delivery	10-12

Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management



County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 📧 lucy.pledge@lincolnshire.gov.uk

Introduction

1. The purpose of this report is to:
 - Review the delivery of our 2013/14 Counter Fraud Work Plan
 - Provide information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption

Background

2. Central Government's commitment to reducing fraud in the public sector is as strong as ever – funding has been earmarked for local authorities to assist in the fight against corporate fraud (i.e. non-benefit fraud). This funding, if shared equally, would equate to approximately £25k per local authority for the next two years – the bidding process is expected to begin shortly – our bid will be based on our latest fraud risk assessment, the need to continue to improve awareness (particularly with our partners and contractor staff) and build on our existing counter fraud arrangements.
3. The National Fraud Authority (NFA) closed in March 2014 transferring its responsibilities to the National Crime Agency, Home Office, City of London Police and the Cabinet Office. Each year the NFA published its Annual Fraud Indicator which provided one of the most comprehensive and reliable estimates of the fraud exposure across all sectors in the UK. This has not been updated for 2014 but other published fraud figures suggest that the largest areas of fraud for County Councils remain the same as 2013:
 - Procurement (including contract fraud) - £876m
 - Payroll - £154m
 - Blue Badge Scheme misuse - £46m
 - Grants - £35m
 - Pensions - £7.1m
4. Emerging or increasing fraud risk areas highlighted by the Audit Commission in their latest 'Protecting the Public Purse' publication (November 2013), relevant to County Councils, included schools, grants and direct payments. We have experienced frauds in all these areas over the last few years and as such they will continue to feature in the Council's proactive programme of work.
5. The Audit Commission encourage all local authorities to align their counter fraud response to the 'Fighting Fraud Locally' strategy – this is something we started to work to from 2012/13 onwards, though we recognise that there is further scope to develop our counter fraud arrangements around the three key strands: *acknowledge, prevention and pursue*. CIPFA have now taken over responsibility for the national 'Fighting Fraud Locally' Strategy and are in the process of carrying out research for the next phase which will kick in from 2015. Our work plan for

2014/15 is driven by this national fraud strategy and will ensure that our response remains proportionate and effective.

6. Lincolnshire County Council's commitment to reducing fraud and error has been consistently strong over the last few years and has achieved savings and recoveries which compares favourably with similar authorities.
7. In 2013/14 we reviewed and updated the Council's Whistleblowing Policy and its Anti-Money Laundering Policy – both are key components of our counter fraud efforts. We recognise that the Council's whistleblowing arrangements, in particular, will become increasingly important for identifying potential fraud in the environment of:
 - the changes to service delivery
 - greater local autonomy (in some areas)
 - reduced staffing numbers
 - the de-layering of staff structures
 - new control framework

Investigations into suspected fraud 2013/14

8. We received 10 new potential fraud referrals during 2013/14 – four fewer than the previous years. The total estimated value of fraud associated with the live cases running during the year was £460,150.
9. Results during 2013/14:
 - Two managers of a former LCC provider were found guilty of multiple counts of fraud against vulnerable adults amounting to £124,656k. They were each sentenced to 3 years imprisonment. The offences (55 in total) were committed over an 8 year period against vulnerable adults – the two managers (husband and wife) stole the service user's savings, winter fuel allowance, disability living allowance and wrongly charged for use of utilities.

Our findings also showed that the couple failed to deliver the number of hours they were contracted to deliver for the Council – they routinely submitted returns showing contract performance in line with the specification. We estimated the value of the fraud against the Council to be approximately £250k over the period in question. During the trial, the judge instructed the jury to give verdicts of not guilty for the offences associated with the Council's contract, stating there was insufficient evidence for a prosecution.

Following this disappointing result and similar past experiences, we have liaised with Legal Services to explore the possibility of handling our own prosecutions, where it is appropriate and economic to do so. We intend to

develop a business case which will outline the benefits of such an approach – if the Council supports this, we shall produce a Prosecutions Policy to govern how this approach will operate.

- A former member of staff was found guilty of benefit fraud to the value of £10k. The individual was dismissed for gross misconduct.
- A woman has been charged with fraud by failing to disclose information and continuing to claim direct payments after the death of her father. It is an offence to dishonestly withhold information to make a gain for yourself or another – the amount falsely claimed totalled £7k.
- Suspected contract (procurement) fraud – concerns raised by our partners following a tender exercise revealed irregularities surrounding a particular aspect of a tender. The evidence suggested the contractor attempted to increase the value of the contract post tender award. A common procurement fraud is failing to tender in accordance with the contract then subsequently submitting claims for extra costs – this irregularity fell within that category.

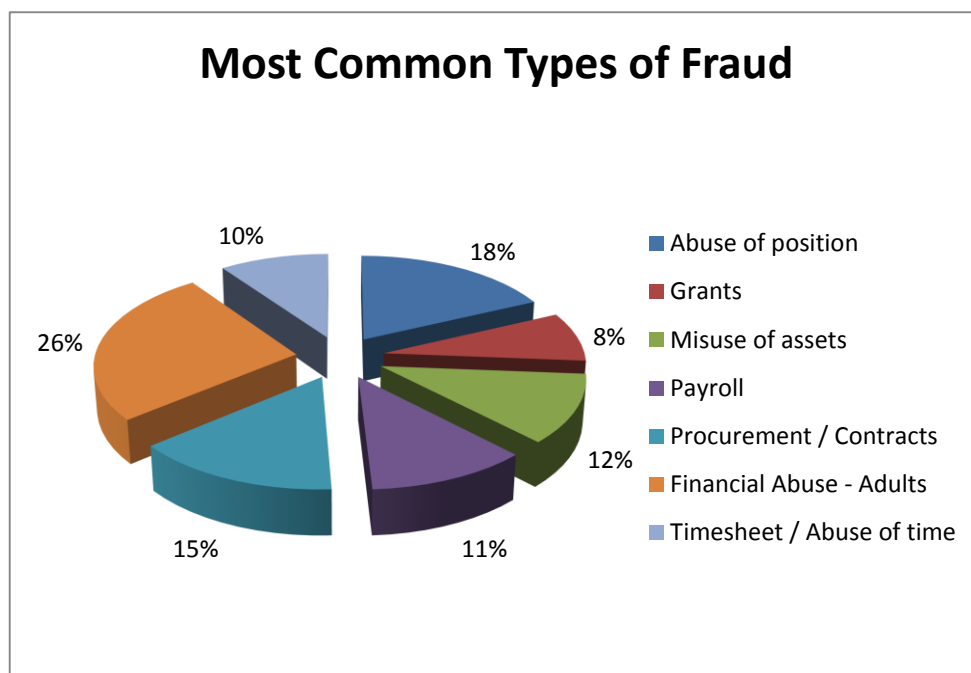
Our investigations concluded that there was insufficient evidence; however, we did identify action to be taken with the contractor and this is currently ongoing. The individual was immediately removed from the Council's contract and the contractor agreed to stand by the original contract price. This matter could potentially have cost an estimated £100k – this approach and result illustrates the good working between our partner and the counter fraud team.

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

Fraud Type	No. of instances 2009/2010	No. of instances 2010/11	No. of instances 2011/12	No of instances 2012/13	No of instances 2013/14
Abuse of Position	4	3	2	2	-
Bank Account / Creditor Payments	-	-	1	-	-
Cheque Fraud	-	1	-	-	-
VAT fraud	1	-	-	-	-
Direct Payments	-	-	-	-	3
Expenses	-	1	1	-	1
False Invoices	-	1	-	1	-
False Claims	-	1	-	-	-
False Accounting	-	-	2	-	-
Grants	2	1	2	-	-
Insurance Fraud	-	1	3	-	-

Fraud Type	No. of instances 2009/2010	No. of instances 2010/11	No. of instances 2011/12	No of instances 2012/13	No of instances 2013/14
Imprest (Cash)	-	2	-	-	1
Misuse of Assets	2	1	2	2	-
Payroll	-	3	2	2	-
Pension	-	-	1	-	-
Procurement	3	3	2	-	1
Recruitment Fraud				1	1
School Fund / Budget Share	1	-	-	-	2
Service User Finances	6	2	3	5	-
Timesheet / Abuse of Time	3	1	1	1	-
Benefit Fraud	-	-	-	-	1

11. The most common types of fraud referrals we have received over the last five years fall in seven categories – the highest value frauds tend fall within procurement (contract fraud), however one of our largest successful prosecutions occurred within the school environment (abuse of position):



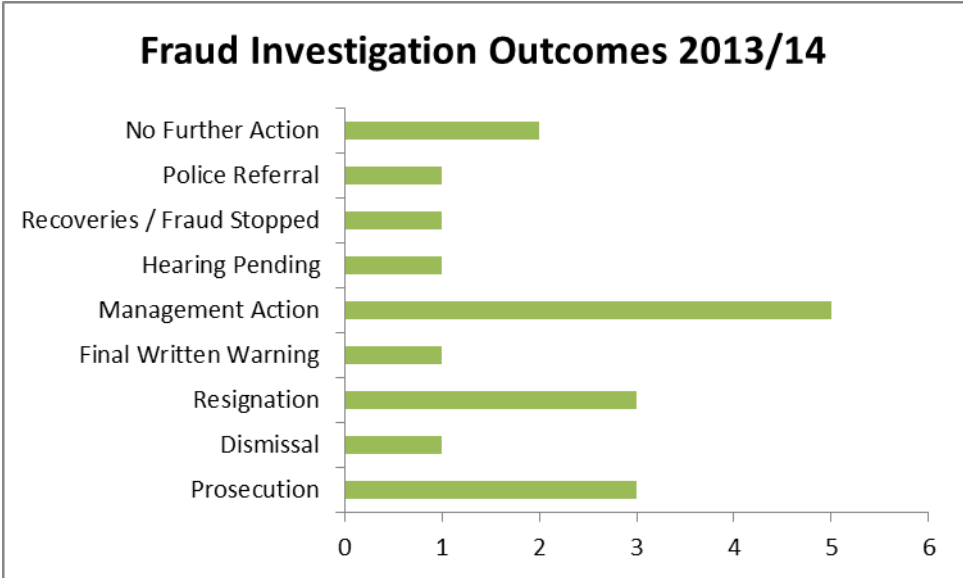
In 2013/14 we received three referrals relating to direct payments – we believe this increase was a direct result of fraud awareness workshops held with social workers and the finance team handling the direct payments scheme.

Last year the Audit Commission reported that the number of direct payments had increased from 8% of all community service expenditure in 2007/08 to 21% in 2012/13, with payments rising from £523m to £1.3b. They warn that the increase in activity may impact on the monitoring arrangements designed to tackle fraud in this area i.e. that resources could be stretched.

We are aware of this increased risk and intend to continue to work closely with social care practitioners and extend our fraud awareness work to providers, carers and service users, ensuring our whistleblowing arrangements are clearly understood and easily accessible.

12. We have analysed the results from each case completed in the year 2013/14 – this includes cases started in 2012/13. 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.

13. Outcomes relating to fraud cases completed / on-going during 2013/14:



14. The past two financial years have been good from a fraud recovery perspective with just over £1m recouped through a variety of means, including insurance, pension confiscation, proceeds of crime and contractual claw-back. This level of recovery was exceptional for the Council. However, we did stop fraud & irregularity to the value of £148k and achieve recoveries through the National Fraud Initiative totalling £14,430.

15. Our largest live case in 2013/14 involved a contract fraud amounting to an estimated £500k over a period of three and a half years. The case involved the financial abuse of service users as well as the contract fraud against the Council. At trial the perpetrators were found guilty of the offences against the vulnerable adults (amounting to £125k) – the prosecution involving the Council's contract

was unsuccessful. We were exploring other options to recover our losses but we now understand that the perpetrators do not have any realisable assets – recovery action through the civil courts is therefore not possible.

16. Four of the ten cases referred during 2013/14 involved individuals external to the Council – this increase can be attributed to the referrals of suspected direct payments fraud (3 cases). Our plans to expand our fraud awareness efforts in this area may result in further referrals over the coming year.
17. We continue to produce action plans following any preliminary enquiries or formal investigations, where necessary, to reduce the risk of reoccurrence and improve controls, wherever necessary. Supervisory controls and / or management oversight (of either individuals or contracts) have been common problem areas and are key controls which will become even more crucial for the Council in the future.
18. It is also pleasing to note that we do have examples where the Council's contract processes and general staff awareness have alerted us to potential frauds and other irregularities.

Proactive Work

19. During 2013/14 we reviewed two of the Council's policies which support our counter fraud arrangements:

- Whistleblowing Policy
- Anti-money Laundering Policy

20. We have produced new posters and leaflets for both fraud and whistleblowing and are in the process of distributing these throughout the County and among our key partners. We will also be using them during our fraud awareness work which forms part of our 2014/15 work plan.

21. Our testing on the 2012/13 National Fraud Initiative (NFI) data matches identified just over £16k of overpayments – this is significantly less than the 2010/11 and 2018/09 exercises, where we recovered £60k and £113k respectively. We believe the reduced recoveries are due to the system improvements the Council has implemented following the previous exercises.

22. There were no fraudulent transactions in the 2012/13 data matches we tested – the overpayments were in the following areas:

- Pension overpayments (recipients deceased) - £1,837.73
- Duplicate payment - £12,592.37
- Overpaid VAT - £1,580.11

One of our largest recovery areas in previous NFI exercises was payments to private residential care homes for residents who had died. We prioritised these

matches given the value of previous recoveries and are pleased to report that no recovery action was required. The proactive approach adopted by the Social Care Team administering these payments has helped to prevent overpayments or where they have occurred, in-house recovery action had been prompt.

23. Since the launch of the National Fraud Initiative, a total of £939 million of fraud, error and overpayments has been detected by all those organisations involved. The 2010/11 exercise identified a total of £229 million – the final results of this last exercise are expected later this year. The NFI team are developing more pilot data matching areas in response to fraud risks, such as direct payments and Blue Badges – this may result in improved recovery potential in future years.
24. We completed proactive work in the area of direct payments – this was seen as an emerging fraud risk nationally as the number and value of payments rose – it was also flagged as a high priority area locally. Over the year we completed fraud awareness sessions with social care practitioner teams across the County and also with the central finance team who administer the payments.
25. Following the awareness sessions, we received six referrals from social workers and staff within the central finance team. We worked with the teams to review the case history and agreed a course of action in each case. From this work we accepted three potential fraudulent direct payment cases – there was insufficient evidence to pursue two cases, the third was referred to the Police and the individual has been charged. We are hopeful of a successful prosecution and intend to use the result as part of our fraud awareness campaign.
26. In response to the 'Fighting Fraud Locally' Strategy and guidance in the Audit Commission's Protecting the Public Purse, we combined a fraud proactive exercise with a due diligence review of expenses and allowances. Employee fraud has been highlighted as one of the key fraud risk areas for local authorities, with the annual fraud loss estimated at £154m.
27. We developed a set of scripts to identify unusual trends, potential irregularities (outliers) or non-compliance issues. It was reassuring to find no potential fraud cases within our samples; we did highlight some compliance issues around the frequency of expense submissions (for both members and staff) and one small overpayment which has now been recovered.
28. We also used data analytics in our due diligence audit of procurement cards to identify potential fraudulent use. Whilst this did identify unusual spending patterns – all testing results were satisfactory. Throughout the year we also used this same approach on the Council's key financial systems, such as creditors and payroll – all our findings were compliance issues and have been reported via our audit reports.
29. We revisit our fraud risk profile to address emerging fraud risks highlighted nationally, locally or via our Midland County Council Fraud Group. We are in the process of carrying out a more detailed risk assessment to ensure we maintain the right focus for our future proactive work.

30. In this last year we took over the lead for the Midland County Fraud Group which meets twice a year, sharing best practice, investigation intelligence and training opportunities. We are also looking to widen our fraud network and are considering attending The Fraud Advisory Panel – this is predominantly a private sector group but they recognise (as do we) the potential benefits of public / private sector working in the fight against fraud.

Protecting the Public Purse – Benchmarking

31. For the first time, the Audit Commission have produced fraud benchmarking briefings comparing local fraud detection results with other similar local authorities. The briefing shows Lincolnshire's fraud cases from 2012/13, compared with the average number of cases identified in other authorities or the total number of cases across the country.

32. The briefing shows that Lincolnshire's detection rates in 2012/13 are slightly lower than the national average for county councils – this is not a concern as previous years detection rates have been much higher; we would not expect to maintain consistently high detection rates each year. The Council has had strong counter fraud arrangements for many years and this has helped to strengthen controls, where necessary and create a robust anti-fraud culture. One aim of our counter fraud policy is to reduce fraud and loss to an absolute minimum and maintain that level – we feel we are well on the way to achieving that aim.

33. The analysis is showing that in 2012/13 we had no frauds in the areas of social care, procurement, insurance and only one low value schools fraud. We have, however, experienced frauds in all these areas in other years, some of which have been high value. Our largest recoveries have been in the areas of schools and contract (procurement) frauds – recovering over £1m in two years.

34. The Audit Commission briefing does provide useful raw statistical information that we can consider locally when planning our proactive fraud detection work. It shows that we must maintain our counter fraud activities and continue our fraud awareness work.

Conclusion and Next Steps

35. The Counter Fraud and Investigations team have achieved 90% of the counter fraud work plan for 2013/14 – we have carried forward three areas to the 2014/15 work plan: revisiting the Council's fraud risk assessment, improving fraud awareness and enhancing our communications & website material.

36. We believe our counter fraud activities remain effective – we aim to boost fraud awareness throughout 2014/15 by working with teams with the highest fraud risks e.g. procurement, contract teams and social care practitioners. We would also like to extend our fraud awareness work to key partners, service users and carers, where appropriate.

37. We shall be reviewing the Council's Counter Fraud Policy in 2014/15 to ensure it remains fit for purpose and reflects the latest recommended counter fraud practices.

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Counter Fraud Work Plan 2013/14

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	Sessions with social care practitioners & Finance teams
Website maintenance	Updates / warnings of emerging fraud risks, case summaries, results and prevention information		November 2013	March 2014	Ongoing – more emphasis 2014/15
Awareness Campaign	Posters, leaflets, e-learning tool to rejuvenate staff awareness		September 2014	January 2014	New leaflets and posters, e-learning tool – distribution 2014/15
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	Limited throughout the year to NFI, proactive work outcomes, investigation outcomes & fraud warnings.

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	Completed at conclusion of investigations
Data analytics	Further development / use of data analytics: <ul style="list-style-type: none"> ▪ Creditors / Procurement ▪ Payroll ▪ Expenses, including members allowances 		April 2013 October 2014	June 2013 January 2014	Complete Complete via quarterly testing Complete
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	Revised target	January 2014	February 2014	C/f to 2014/15
Proactive fraud exercises	Expenses Direct Payments		April 2013	March 2014	Complete 3 cases detected – 1 referred to Police, suspect

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
					charged
National Fraud Initiative 2012/13	Review and investigation of Council matches / responding to data requests from other public sector bodies		April 2013	March 2014	Complete – £16k overpayments detected. £14,430 recovered.
Sub Total		160			
Investigation					
Fraud Investigation	In line with investigation manual and recommended best practice		April 2013	March 2014	10 referrals plus 4 c/f from 2012/13
Sub Total		300			
Sanctions and Redress					
Pursue civil, disciplinary and/or criminal sanctions	Action taken during investigation process		April 2013	March 2014	3 x prosecutions, 1 x dismissal, 3 x resignations.
Identify and recover losses	Identified during investigation – recovery action through Proceeds of Crime Act, Insurance and legal means		April 2013	March 2014	£14,430 recovered via NFI. £100k attempted fraud stopped.
Sub Total		5			
Contingency					
Advice & Liaison			April 2013	March 2014	
Sub Total		65			
Grand Total		650			