



*For all your assurance needs*

# Lincolnshire County Council Counter Fraud Annual Report 2015/16



## 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

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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 on the work undertaken as part of the agreed counter fraud plan.



1. The Council has a **zero tolerance** stance to all forms of fraud, corruption and theft, both from within the Authority and from external sources. We recognise fraud can:
  - undermine the standards of public service that the Council is attempting to achieve
  - reduce the level of resources and services available for the residents of Lincolnshire
  - result in major consequences which reduce public confidence in the Council
2. As part of our commitment to 'Fighting Fraud and Corruption Locally' we have a dedicated Counter Fraud and Investigations Team who are trained to deliver a professional counter fraud service to the highest standards.
3. The purpose of the annual report is to:
  - Provide assurance to the Audit Committee on the overall effectiveness of the Council's arrangements to counter fraud and corruption
  - Inform how the Counter Fraud plan for 2015/16 was discharged and the overall outcomes of the proactive counter fraud work and investigations undertaken
4. The Counter Fraud and Investigation Team has delivered the majority of planned work for 2015/16 - 86%. The areas within the Counter Fraud Work Plan 2015/16 that remain outstanding are already at an advanced stage and will be completed at an early stage in the 2016/17 plan.
5. In 2015/16 we continued to focus heavily on awareness work in specific areas most at risk to fraud. Procurement fraud has previously been identified as a threat. In response to this we delivered:
  - a series of awareness sessions with contracts teams across the Council. These workshops were tailored and designed to improve understanding of relevant frauds and promoting how concerns can be reported.
  - a large training event on procurement fraud for officers involved in commissioning and managing contracts at the Council and key partners from district councils within Lincolnshire and beyond
6. Recoveries secured from our investigation work in 2015/16 were not as high as previous years although we did identify and recover over £30k from enquiries made into data matches resulting from the National Fraud Initiative 2014/15 process. Other positive outcomes are that our recommended actions from investigations made are designed to prevent further fraud issues reoccurring and contribute to future savings.
7. Lincolnshire Counter Fraud Partnership has overseen significant results with its partner authorities during 2015/16. Over £680k in savings have been identified from two projects on Council Tax Reduction and Single Person Discount. The Counter Fraud and Investigation Team work closely with the Lincolnshire Counter Fraud Partnership and have delivered joint work to promote our counter fraud and whistleblowing arrangements during the year.
8. There have been significant developments nationally in counter fraud during 2015/16. The CIPFA Counter Fraud Centre (CCFC) issued 'Fighting Fraud and Corruption Locally'. This is the new strategy to tackle fraud and corruption in local government for 2016 - 2019. The strategy is designed to provide the foundation for a tougher response to fraud against local authorities. The new strategy introduces 6 themes - local authorities will be expected to measure performance against these to ensure their response is comprehensive and effective. The vision is that, by 2019, local authorities will have developed a robust response to fraud. The themes are:
  - Culture
  - Capability
  - Capacity
  - Competence
  - Communication
  - Collaboration
9. One of key areas of work in 2016/17 will be to benchmark against these themes of good practice and to refresh our Counter Fraud Policy.

## Investigations

10. We received 11 new referrals of suspected fraud during 2015/16 – this was lower than the previous year although this can be explained by the large amount of social care and financial abuse cases reported to us in 2014/15. We carried out 6 investigations during the year and identified an increase in fraud cases at schools. In response we intend to undertake a proactive counter fraud exercise aimed at schools in 2016/17.
11. It should be noted that we operate the whistleblowing line on behalf of our partners at District Councils and pass reports to them or other agencies when required. The Lincolnshire Counter Fraud Partnership's efforts to promote reporting of fraud concerns have actually resulted in an increase in the use of this facility – numbers are included in our annual whistleblowing reports made to this committee.

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### 2. Results from investigations during 2015/16:

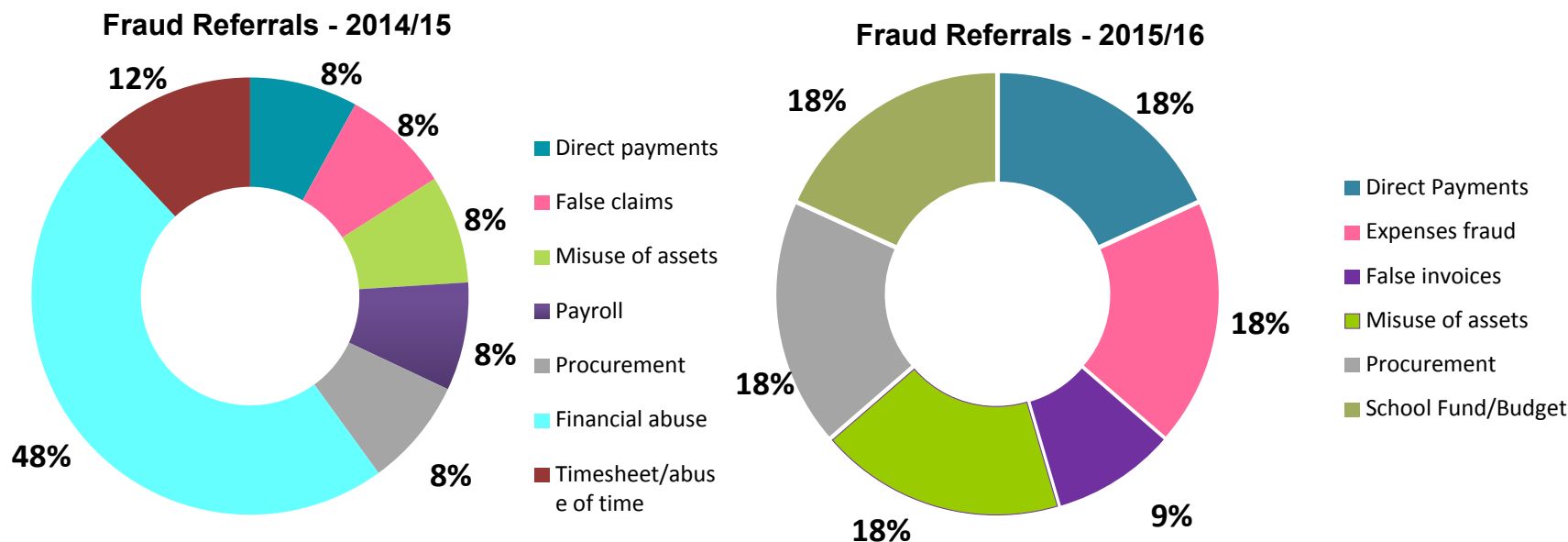
- We investigated a referral of financial mismanagement at a school. The main issues related to misuse of school assets, misappropriation of income and irregularities around staff appointments, pay and expenses. There was insufficient evidence to meet the requirements for a criminal case. However, following our employment investigation an individual involved was summarily dismissed. A further employee also resigned before the disciplinary process was completed
- 3 individuals were convicted with money laundering and fraud offences in January 2016 after a complex and lengthy police investigation. This related to a bank mandate fraud committed against the Council and Mouchel in June 2011. A custodial sentence of 5 years was given to the main perpetrator. Two accomplices received sentences of 18 months imprisonment
- An employee was investigated following allegations of submitting false mileage claims. We found evidence to support the allegations made and the individual was summarily dismissed. We also recovered the £750 obtained through the fraudulent claims

- A school was victim of an invoice 'scam' and subjected to threatening demands for payment for goods allegedly supplied - the school subsequently paid the invoice. Following our investigation the invoice was withdrawn and the payment recovered



## Referrals

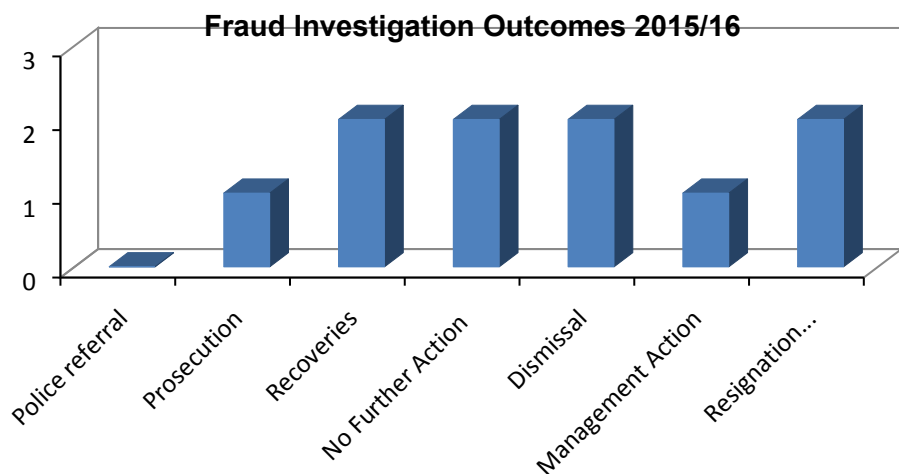
13. During 2015/16 we have continued to receive referrals relating to procurement, misuse of assets and expenses fraud. This is demonstrated by the charts below. We plan to continue our proactive work around procurement fraud in 2016/17 and we also intend to expand our continuous testing regime of expenses claims submitted. This will allow us to obtain and analyse data on a regular basis to identify any trends or potentially fraudulent activity at an early stage.
14. The charts demonstrate that there was a spike in financial abuse cases in 2014/15 – this correlated with proactive work carried out in that year. In 2015/16 we focused our efforts in other areas and did not receive any referrals of financial abuse – this demonstrates the value of proactive work. We plan to continue our liaison with social care and safeguarding staff to ensure that the potential fraud risks in this area remain on the agenda and are investigated where necessary. The charts show a more even spread across several categories of referral was recorded in 2015/16 with no particular trends apparent:



15. A summary of referrals received over the last 5 years can be found at Appendix B

## Outcomes

16. We analysed the results from the cases completed in 2015/16 including cases commenced in previous years). The results support our compliance with the zero tolerance approach laid out in our Counter Fraud Policy. Please see the chart below:



- much of the value (£87k) related to an investigation at a school. The case was proven and the individual summarily dismissed from their position. However, the burden of proof required for criminal cases could not be met, therefore no police investigation ensued
- 2 cases related to missing cash worth over £4.2k at separate Council establishments. We were unable to identify, with any certainty, the perpetrators responsible due to the poor state of records maintained
- 2 further cases are ongoing and we hope to make recoveries in 2016/17

It can be frustrating when recoveries cannot be made from our investigations. The work completed and recommendations made within our action plans should ensure that further losses have been prevented and therefore can be viewed positively as future savings made.

19. Action plans will continue to be produced from our work on investigations and proactive counter fraud exercises to aid organisational learning and to prevent issues reoccurring by understanding risks and ensuring controls are improved.

## Recoveries

17. The level of recoveries from investigations in 2015/16 have not reached the heights of the results achieved in 2012/13 and 2013/4 when over £1m was clawed back. During the year, we recovered £950 from investigations completed. We have also secured recovery of over £30k from our follow up work on data matches identified through the National Fraud Initiative 2014/15.

18. Recoveries made are not the only measurement of success in terms of counter fraud activity. 6 cases were investigated during 2015/16 and we calculated their value at over £97k. These cases can be summarised as follows:



**Awareness**

- 20. We have continued to place emphasis on fraud awareness work during 2015/16 and have achieved sustained coverage across several media channels. For example, we have issued press releases aimed at external stakeholders e.g. members of the public, local businesses etc. Subsequently, local media outlets published articles using these details both through printed/internet media and via social media channels such as Twitter. This has helped in promoting our counter fraud response to a broader audience and has contributed to an increase in whistleblowing calls received.
- 21. For internal stakeholders and partners we have used different options to promote fraud awareness and how concerns about fraud may be reported. We have produced regular articles to notify Council staff about counter fraud arrangements and encouraging them to report potential fraudulent activity. We have also liaised with the Council's Communications Team to alert officers of scams that may be aimed at the authority. We have also updated the Assurance Lincolnshire internet pages to include a direct link to counter fraud and investigation information.

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**Procurement Fraud**

- 22. In 2015/16 we commenced a proactive review of Procurement Fraud. It is accepted that this area of fraud is the largest single area of fraud loss to local government – estimated at almost £900m annually, although the rate of fraud detected remains relatively low. The Department for Communities and Local Government has recently written to Council leaders to emphasise the importance of tackling fraud in this area. The scale and wide ranging nature of procurement within the public sector makes this area vulnerable to abuse and therefore, is a difficult area for councils to control.
- 23. We have made presentations to several procurement and contract management teams during 2015/16 including:

- Public Health
- Environment and Economy (Highways)

- Procurement Lincolnshire - People Team
- Procurement Lincolnshire - Infrastructure Team

These workshops were well attended and received and we plan to deliver similar tailored presentations to the remaining devolved teams within the Council and to our partners at District Councils in 2016/17 as part of a drive to combat procurement fraud.

- 24. In conjunction with the Lincolnshire Counter Fraud Partnership and an external training provider we helped arrange and deliver a training event to over 70 delegates during February 2016. The conference covered the main risks around procurement, potential indicators, guidance on prevention and relevant legislation. We also clarified the Council's whistleblowing arrangements and encouraged reporting of concerns by officers. Contract officers across the authority and other areas including legal services and finance attended. Interested parties from District Councils across Lincolnshire and colleagues from other County Councils were also present. This has allowed us to promote the issue of procurement fraud and the work we plan to deliver. We have now established numerous contacts across the council and its partners and we intend to build upon this in our 2016/17 Counter Fraud Work Plan.
- 25. The issue of combating procurement fraud within local government is complicated by the size and variety of services commissioned. Our approach is to review particular areas or 'pockets' of procurement and contracts at increased risk to fraud – we plan further in depth reviews during 2016/17. We recently had input into the Council's updated Contract and Procurement Procedure Rules to ensure they reflect fraud risks and controls. We also intend to promote our whistleblowing procedures with contractors and service providers to ensure awareness across all stakeholders.

## National Fraud Initiative 2014/15

26. We have now completed our review of the data matches from the 2014/15 National Fraud Initiative exercise. This process is designed to identify fraud, error and overpayments. The final figure of payments identified and recovered was £30,384. These amounts can be broken down as:

- 2 cases where payments continued to be made to care homes after residents had died – value £10,823
- 2 cases where direct payments were made after the intended recipient's death. Payments recovered totaled £13k
- Overpayment made to a deceased pensioner – total £2,632
- Duplicate payment made to a supplier worth £4,227

None of these cases involved any evidence of fraud and represent genuine cases of overpayment. Controls are in place to prevent this type of error and they are generally effective. On occasion, some cases 'slip through the net'. The National Fraud Initiative exercise helps identify such cases and plugs the gap.

## Other Proactive work

27. Due to control issues identified since the implementation of Agresso there been an increased risk of fraud and error, particularly around the systems in place for Payroll and Accounts Payable. In response to this, we have carried out extensive testing on both areas with data analysis techniques being used to help identify potentially fraudulent transactions – areas targeted included duplicate and fraudulently instigated payments, potential conflicts of interest, purchasing card transactions and claims for expenses and allowances. The issues around erroneous payments made have been well documented, but it is reassuring that we did not

highlight any evidence of fraudulent payments being made.

28. We completed a review of honoraria payments made to employees during 2015/16 – this has previously been highlighted as an area at risk to fraud. We found no evidence of such payments being instigated fraudulently and found the process to be robust.

## Midlands Fraud Group

29. We continue to head the Midland Counties Fraud Group. The most recent meeting was in July 2015 and another meeting will take place in summer 2016. We maintain regular contact with our colleagues in the group and liaise on fraud risks, best practice and advice. This has proved to be a valuable source of information to group members.



30. The Lincolnshire Counter Fraud Partnership has achieved significant results with its partner authorities during 2015/16. The following projects were approved and supported by the partnership:

- An exercise to identify Council Tax Single Person Discount (SPD) fraud removed discounts in 2229 cases and generated net revenue of £573k. A further 610 penalties were imposed at a value of £42k
- A scheme to address Council Tax Reduction (CTR) fraud led to 165 investigations taking place. This resulted in overpayments of £62k being identified and 42 penalties worth £3k were imposed. It is planned roll out this project at further councils across the partnership

31. Other significant achievements during 2015/16 include:

- Raising fraud awareness by regular promotion of fraud and issuing county wide press releases (e.g. Single Person Discount project). This work demonstrates Lincolnshire local authorities commitment to tackling fraud. Eye catching pop-up displays have been developed to raise awareness of the Confidential Reporting line. The overall response from the awareness work is having a positive effect with the fraud message 'getting out there'
- Sharing fraud intelligence and best practice by developing effective fraud networks (internal and external) – arrangements are helping to implement effective 'fraud proofing' across all Lincolnshire authorities and enabling a proportionate response to existing and emerging risks
- Strengthening governance arrangements by working with Lincolnshire authorities to identify key fraud risks and develop a fraud healthcheck which will assess against the themes of Fighting Fraud and Corruption Locally

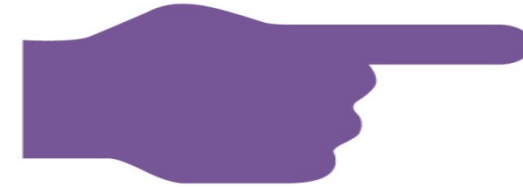
32. The main priorities for the partnership in 2016/17 will be:

- Development and delivery of fraud healthchecks to partner authorities and identification of cost effective approaches for dealing with fraud and error
- to develop and release an e-learning module. This will involve appointing a provider to deliver the package and preparation of a communications plan
- establishment of fraud risk registers across partner authorities
- pro-active fraud work on procurement and housing tenancy
- ongoing fraud awareness work

33. The Lincolnshire Counter Fraud Partnership was a key partner involved in delivering the procurement fraud workshop in February 2016.



34. The Counter Fraud and Investigation Team have completed 86% of the Counter Fraud Work Plan for 2015/16 (please refer to Appendix A). The 2 areas carried forward into the plan for 2016/17: completion of the Council's Fraud Risk Assessment and the development of an e-learning platform are on track to be delivered by September 2016 - both areas will be delivered in collaboration with the Lincolnshire Counter Fraud Partnership. Ongoing pro-active work on procurement and contracts will continue during 2016/17.
35. The information in this report supports our view that the counter fraud response at Lincolnshire County Council continues to work effectively. The collaboration between the Counter Fraud and Investigations Team and the Lincolnshire Counter Fraud Partnership has allowed a wide ranging approach to addressing key fraud risks to the Council and its partner authorities. Extensive and varied communication channels have been used to promote fraud awareness among a wider audience and increased whistleblowing traffic is evidence this is working well.
36. In 2016/17 we plan to expand our engagement with stakeholders including the Corporate Management Board. Our proactive work will include an exercise aimed specifically at schools – an area not previously targeted and we will continue in our drive to tackle high risk areas such as procurement. A number of our policy documents are due for review – this includes the Counter Fraud Policy, Fraud Response Plan and the Whistleblowing Policy. We will seek to refresh these documents and promote awareness accordingly. We believe that this will further strengthen the counter fraud arrangements already in place.



## Counter Fraud Work Plan 2015/16

## Appendix A

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
<b>Anti Fraud Culture</b>					
Raising Awareness	Briefings sessions  Training for members, management, staff, key partners (general and specific fraud areas)		April 2015	March 2016	<b>Completed</b>  Briefing sessions focused on procurement fraud.  Procurement Fraud training event delivered February 2016.
Engagement and Training	Updates – risks, results and information  Newsletter - awareness		April 2015	March 2016	<b>Completed</b>  Regular updates across media channels – press releases, County News, daily staff bulletins
Website development and maintenance	Develop e-learning and microsite (Assurance Lincolnshire)		April 2015	March 2016	<b>Ongoing</b>  Microsite currently updated and e-learning tool being developed
<b>Sub Total</b>		<b>30</b>			
<b>Deterrence</b>					
Promotion of counter Fraud Activity	Investigation outcomes and learning points		April 2015	March 2016	<b>Completed</b>  Action plans produced following all investigations

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
	Publicising key issues and fraud prevention measures				Regular promotion, where possible, aimed at deterring fraud
<b>Sub Total</b>		<b>10</b>			
<b>Prevention</b>					
Organisational learning	Reports and action plans		April 2015	March 2016	<b>Completed</b>  Action plans produced following all investigations
Use of data analytics	Use of data analysis within pro-active counter fraud exercises		April 2015	March 2016	<b>Completed</b>  Data analysis used on a regular basis – payroll, honoraria and procurement
Advice	Enhancing fraud controls and process – new and existing systems		April 2015	March 2016	<b>Completed</b>  Provided when required
<b>Sub Total</b>		<b>40</b>			
<b>Detection</b>					
Update Fraud Risk Profile	Fraud risk assessment work		April 2015	June 2015	<b>Ongoing</b>  Majority of work completed – To be finalised in 2016/17 (Quarter 2)
Pro-active counter fraud exercises	Review of contracts and procurement using data analysis, intelligence and liaison with contract teams		July 2015	September 2015	<b>Completed (as far as possible during 2015/16)</b>  Met with contract leads to identify fraud risks.  Awareness sessions delivered t devolved

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
					procurement and contract teams  Data analysis to identify contracts for closer scrutiny  Work to continue in 2016/17
National Fraud Initiative 2014/15	Review and analysis of matches identified in NFI process (prioritising areas where recoveries can be made or where higher risk)		April 2015	June 2015	<b>Completed</b>  Amount recovered - £30384
Lincolnshire Counter Fraud Partnership	Co-ordination of the joint group devised from DCLG funding – oversight and development		April 2015	March 2016	<b>Completed</b>  Work ongoing against Work Plan
Midlands Fraud Group	Hosting and co-ordination of Midlands Fraud Group meetings		July 2015  January 2016	July 2015  January 2016	<b>Completed</b>  Meeting hosted in July 2015. Work priorities caused delay in planned January 2016 meeting – rearranged for Summer 2016
<b>Sub Total</b>		<b>170</b>			
<b>Investigation</b>					
Whistleblowing and Fraud Investigation	In line with investigation manual and recommended best practice		April 2015	March 2016	<b>Completed</b>  On-going work whenever required

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
<b>Sub Total</b>		<b>300</b>			
<b>Sanctions and Redress</b>					
Pursue civil, disciplinary and/or criminal sanctions	Action taken during investigation process		April 2015	March 2016	<b>Completed</b> On-going work whenever required
<b>Sub Total</b>		<b>5</b>			
<b>Contingency</b>					
<b>Sub Total</b>		<b>65</b>			
<b>Grand Total</b>		<b>650</b>			



## Fraud referrals made (from 2011/12 to 2015/16)

Appendix B

Fraud Type	2011/12	2012/13	2013/14	2014/15	2015/16
Abuse of position	2	2	-	-	-
Bank account payments	1	-	-	-	-
Direct Payments	-	-	3	2	2
Expenses fraud	1	-	1	-	2
False invoices	-	1	-	-	1
False claims	-	-	-	2	-
False accounting	2	-	-	-	-
Grants	2	-	-	-	-
Insurance fraud	3	-	-	-	-
Imprest (cash)	-	-	1	-	-
Misuse of assets	2	2	-	2	2
Payroll	2	2	-	2	-
Pension	1	-	-	-	-
Procurement	2	-	1	2	2
Recruitment	-	1	1	-	-
School Fund/Budget	-	-	2	-	2
Financial abuse	3	5	-	12	-
Timesheet/abuse of time	1	1	-	3	-

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