

COUNTER FRAUD

2019 Annual Report



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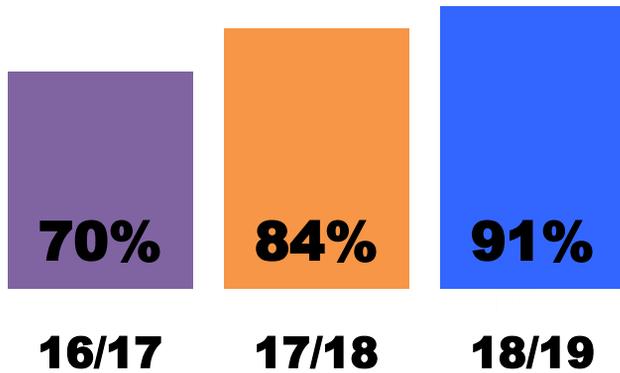
The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

Key Messages

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 2018/19 Counter Fraud Work Plan and the outcomes of proactive fraud work and investigations.

PERCENTAGE OF PLAN COMPLETE



We have delivered 91% of the tasks included within the 2018/19 Counter Fraud Work Plan – please see Appendix B.



£15.2k

Our work directly contributed to stopping several fraud attempts – protecting a total value of £15.2k.



Fraud Awareness promotion has continued. The internal e-learning package has continued to perform well and receives good feedback.

£9.7K RECOVERED 2018/2019

We made recoveries in 3 cases that we dealt with – the amounts recovered totalled over £9.7k



Excellence in Raising Fraud Awareness

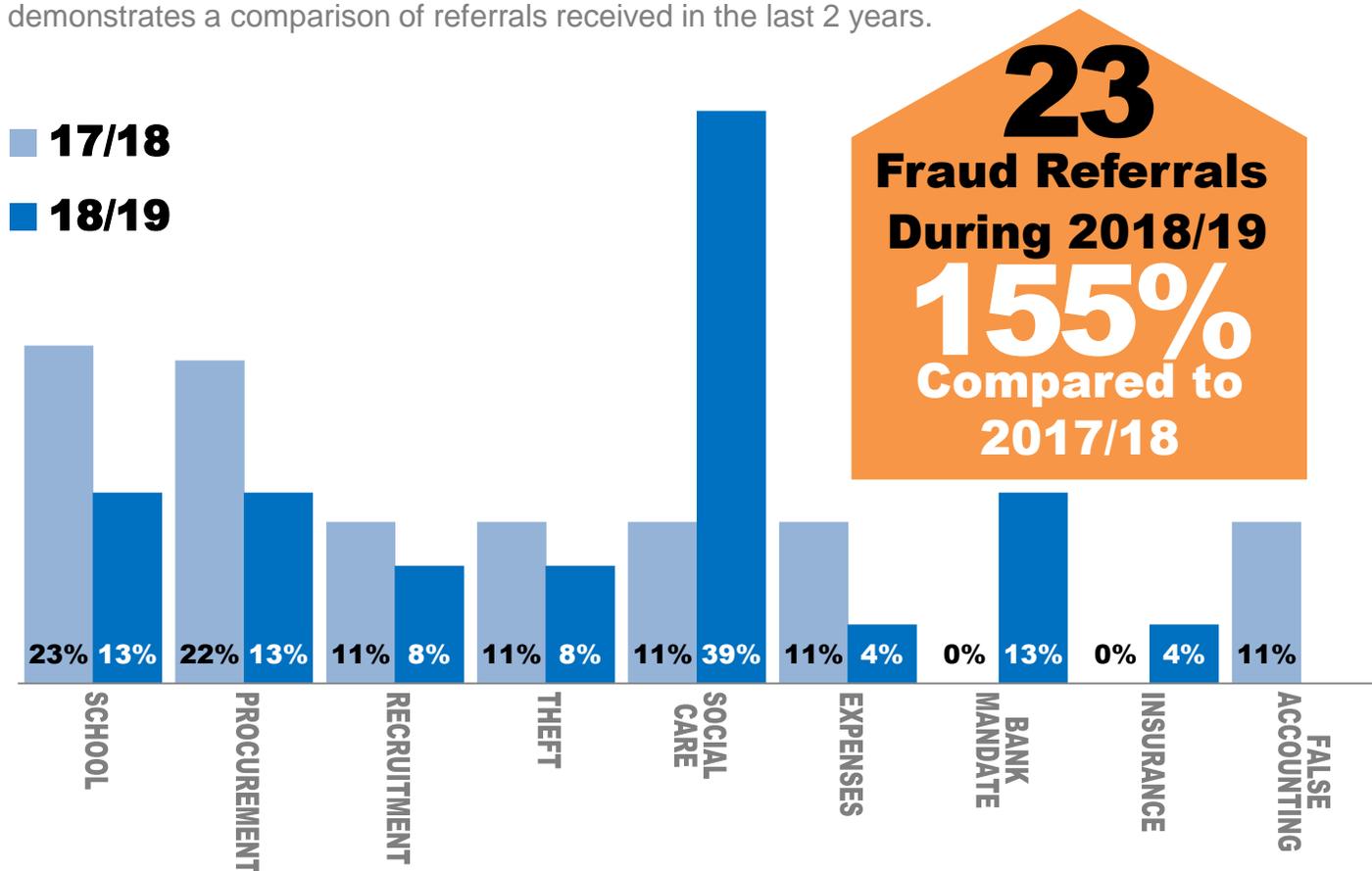
We are delighted to report that our work was recognised through winning the 2019 Government Counter Fraud Award in the Excellence in Raising Fraud Awareness category – this was for our campaign to raise fraud awareness in schools.



We have completed a review of procurement fraud and have also improved our knowledge and understanding of the cyber fraud threat.

Fraud Referrals

Although there was a marked increase in the number of referrals, they were less complex than the longer running cases in 2017/18. As a result, these cases were less time consuming to resolve. Please refer to figure 1 below – this demonstrates a comparison of referrals received in the last 2 years.



INVESTIGATION HEADLINES

A council employee submitted fraudulent expenses claims over a period of time – they were dismissed from their post and the case referred to Lincolnshire Police for potential criminal proceedings.



A council school received an urgent payment demand from a fraudster for around £10k. We have recently delivered awareness training to schools and this helped them identify the issue and prevent any payment being made.

A whistleblower reported that a service user had submitted false information for a financial assessment – therefore receiving financial support that they were not eligible for. Civil action is ongoing to recover the debt of £76k.

Fraud Referrals



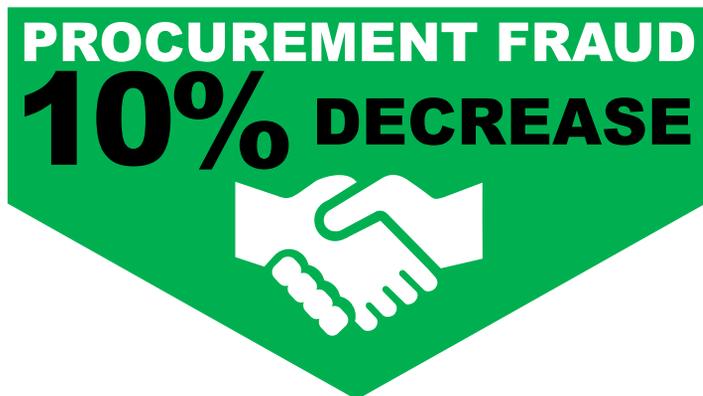
The increase in social care fraud is in line with statistics produced by CIPFA which suggests this is a growing area of threat.

Issues investigated ranged from deprivation of capital (non declaration of assets) to use of personal budgets (intended for payment of care). The increase in cases may be due to closer working with social work teams.



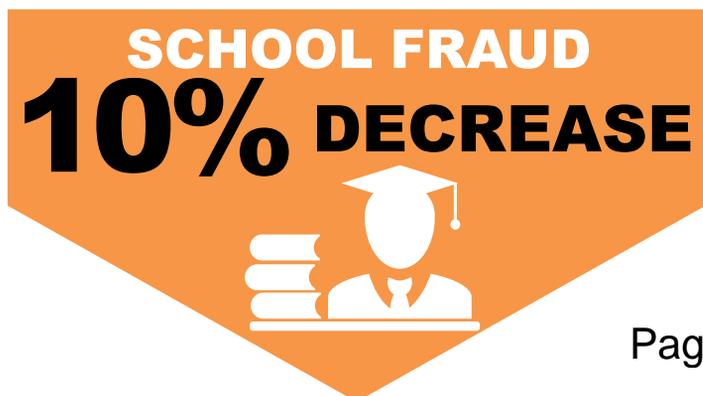
We identified a number of attempts to change bank account details with a view to fraudulently securing payments from the Council – mainly targeting schools. Some attempts were well planned and sophisticated.

To combat this type of fraud we promoted awareness through several different media channels. We are aware that this directly prevented payments being made.



Procurement fraud is a major threat to local government – it is the single largest area of fraud loss.

We are encouraged that the number of cases fell in 2018/19 and have also delivered proactive work in this area that has provided assurance of robust controls in operation.



School fraud is one of the most prevalent areas of fraud. However, in 2018/19 we have seen a small drop in cases referred.

We have recently worked with schools to raise fraud awareness. This has been effective and we hope that this improved knowledge will continue to ensure that strong fraud prevention controls are operated within schools.

Investigation Outcomes

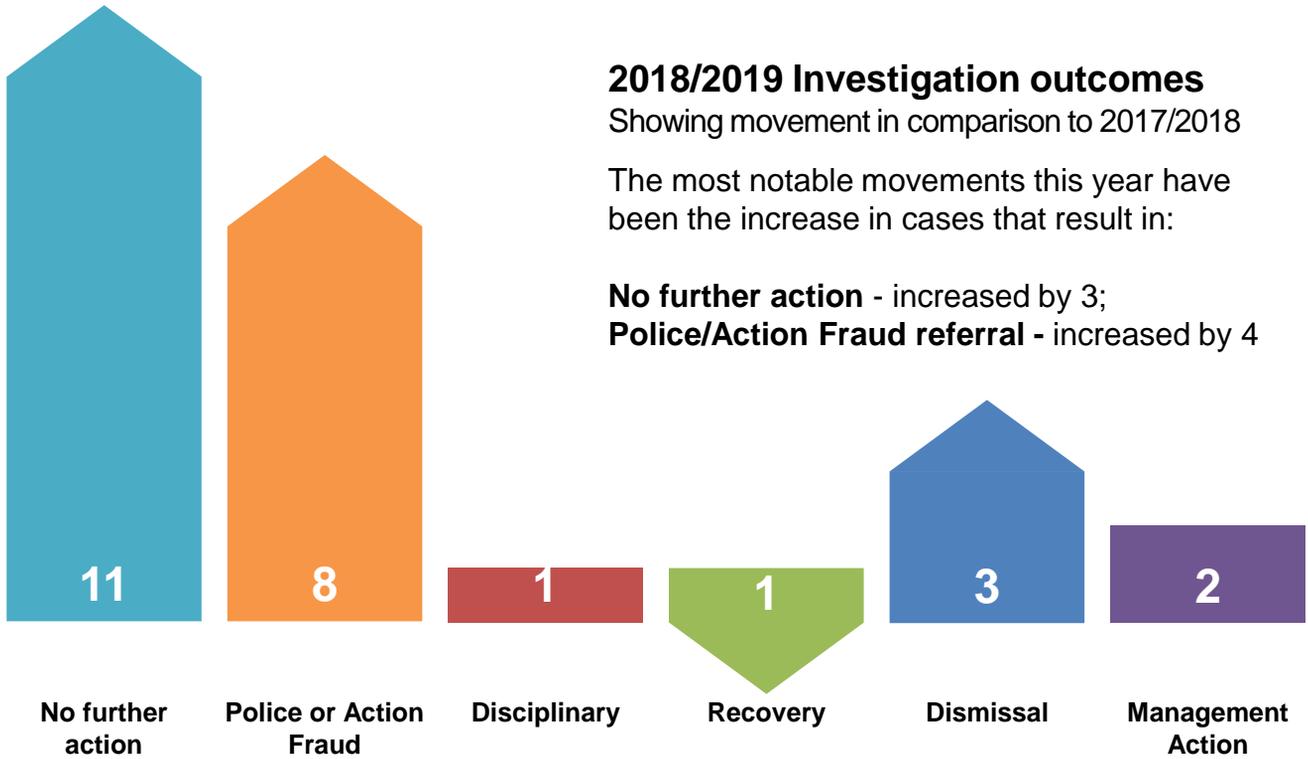
2018/2019 Investigation outcomes

Showing movement in comparison to 2017/2018

The most notable movements this year have been the increase in cases that result in:

No further action - increased by 3;

Police/Action Fraud referral - increased by 4



In accordance with our Counter Fraud Policy and zero tolerance approach to fraud we attempt to ensure sanctions against perpetrators of fraud. Action Fraud is the UK's national reporting centre for fraud and we submit all cases to them where we identify evidence of fraud. However, often the value of loss will be a barrier to further action.

There has been an increase in cases where 'no further action' is required. 7 of these cases did not require investigation beyond initial enquiries. In 4 cases, potential fraud issues were identified but due to sensitivity of cases it is necessary to take a pragmatic approach and seek resolutions through other means – an example of this can be social care cases where recoveries are being pursued through civil means.

Fraud Recoveries

£9.7K

£1.3k recovered from timesheet fraud
£7.1k recovered from case where care package was fraudulently obtained
£1.3k recovered from fraudulent use of a procurement card

While this year's recoveries represent a decrease on the annual figures recorded previously, it should be noted there is little that can be done to affect timing when recoveries are made. It was also unfortunate that some long running cases where we hoped to recover losses were unsuccessful.

Proactive Work

National Fraud Initiative 2018/19

Thousands of records were submitted to the National Fraud Initiative 2018/19 process. We have recovered almost £1/4m of funds since the exercise started in 2006 and hope to make further recoveries in this process.

The update of the Fraud Risk Register has been completed during 2018/19. This guides our priority work and planning both in short and longer term. It also provides an up to date insight of our fraud risks at any given time.

Fraud Risk Register update

Fraud Awareness

One of our main areas of proactive work is to build awareness and understanding of fraud. In 2018/19 we have continued promote our highly successful e-learning package and have delivered general awareness training to members and on specific issues including identity fraud and schools.

We have developed our data analytic capability during 2018/19 and have used this approach heavily in recent proactive work to identify procurement fraud and to analyse payroll transactions. We will seek to extend our analysis work further in 2019/20 to cover procurement card use and off contract purchases.

Data Analysis

Proactive exercise

We have delivered proactive exercises designed to prevent and detect fraud during 2018/19 – areas covered include procurement fraud, social care and cyber fraud. This links directly to those areas identified as priorities for review within the Fraud Risk Register.

We lead on this group of fraud practitioners from 18 councils across the Midlands region. We have held regular meetings and share intelligence and best practice to help enhance our counter fraud response. Joint training sessions are due to be delivered which should help member authorities further

Midland Fraud Group

Fraud Risk Register

LIKELIHOOD	4 ALMOST CERTAIN				
	3 PROBABLE	Schools & establishments Payroll & employees Pensions Insurance	Contracting/ Contract Management Procurement Social Care	Council Tax	Cyber fraud
	2 POSSIBLE	Income Collection Payments/ Creditors BACS & Cheque False accounting Blue Badge Identity	Business Rates	Corruption (including bribery)	
	1 HARDLY EVER	Debt Management Petty Cash & Imprest accounts Electoral fraud	Property, land & equipment Grants	Money Laundering Investment/ Treasury Management	
		1 NEGLIGABLE	2 MINOR	3 MAJOR	4 CRITICAL
IMPACT					

Fraud risk identification is essential to understanding exposures to risk and the changing patterns of fraud and corruption threats. We update our Fraud Risk Register on a continual basis to ensure all information is current – this ensures our response is effective and aimed at the right places.

We updated the register in 2018/19 and presented the results to this committee. The Key Messages from the report were:

50% of fraud risk categories are classed as Green or 'low' risk

Cyber fraud remains the highest rated risk – classed as Red (high) risk

Proactive work has been delivered in the 5 main risks identified in the update

Lincolnshire Counter Fraud Partnership

Key Outcomes in 2018/19

Revenue Generation

- ✓ £1.4m (gross) Council Tax Single Person Discount Review
- ✓ 3025 removals of single person discount (totalling 75k)
- ✓ Proposal being developed for an Invest to Save project - estimated to deliver future revenue generation of £10.58m

Fraud Awareness

- ✓ Tailored fraud awareness sessions delivered to members
- ✓ Identity fraud training delivered by Lincolnshire Police
- ✓ Fraud Awareness e-learning - licence extended to 2021

Fraud resilience and fraud proofing

- Regular liaison and sharing of information on:
- ✓ Scams
 - ✓ Alerts
 - ✓ Fraud cases

Total savings by partnership

£2.2m

since 2015

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
CIPFA Code of Practice – Key Principle A : Acknowledge Responsibility			
A1 - Acknowledge the threat of fraud and corruption	Engagement and training	Briefing sessions – training for members,	Delivered throughout 2018/19
A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption	Fraud awareness Website updates	management and staff (general and specific fraud areas) Annual Plan for Counter Fraud activity to Audit Committee	Delivered to Audit Committee in Progress and Annual Reports
A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks	Response to the Home Office Report on Serious and Organised Crime	Continued development of fraud resilience through the Lincolnshire Counter Fraud Partnership (LCFP)	Delivered throughout 2018/19
A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption	Continued promotion of e-learning package (in conjunction with Lincolnshire Counter Fraud Partnership)	Roll out of fraud e-learning module for members	Outstanding
		Updates, risks, results and information (various publications and channels)	Delivered throughout 2018/19
		Response to Serious Organised Crime Pilot Project across Lincolnshire	Delivered throughout 2018/19

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
CIPFA Code of Practice – Key Principle B : Identify Risks			
B1 - Fraud risks are routinely considered as part of risk management arrangements	Research and intelligence gathering to highlight emerging risks	Participation in Midlands Fraud Group, work with FFCL Board (Fighting Fraud & Corruption Locally),	Delivered throughout 2018/19
B2 - The organisation identifies the risks of fraud and corruption	Benchmarking activity	CIPFA Counter Fraud Centre, follow up of NAFN alerts	
B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures	Update fraud risk profile	and horizon scanning for relevant legislative changes	
B4 – The organisation evaluates the harm to its aims and objectives	Analysis and publication of fraud losses	Review and update of the Council's Fraud Risk register.	Updated and presented to Audit Committee
		Participation in CIPFA Fraud and Corruption Tracker (CFaCT) Annual Survey	Completed and submitted
		Annual and progress reports of counter fraud activity to Audit Committee	Reports presented
		Data analysis & risk assessment: for counter fraud proactive exercises to support key	Delivered throughout 2018/19
		control and continuous testing	

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
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	Refresh & promote Counter Fraud Strategy	Outstanding
C2 - Strategy includes the organisation's use of joint working or partnership approaches	Review and refresh policy documents	Review and updates of Policies including: <ul style="list-style-type: none"> • Counter Fraud Policy • Fraud Response Plan • Fraud Communication Strategy • Money Laundering Policy 	Outstanding
C3 - The strategy includes both proactive and responsive approaches:			
Proactive action: <ul style="list-style-type: none"> • Develop counter fraud culture • Prevent fraud through 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 		Activity planning of pro-active counter fraud work - response to risk assessment and data analytics.	Delivered
Responsive action: <ul style="list-style-type: none"> • Detecting fraud 			

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
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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	Lincolnshire Counter Fraud Partnership Midlands Fraud Group	Fraud advice across LCC services areas and to strategic partners.	Delivered throughout 2018/19
D2 - The organisation utilises an appropriate mix of experienced and skilled staff	Collaboration with and support to Internal Auditors at Assurance Lincolnshire	Management of Lincolnshire Authorities Whistleblowing Facility.	Delivered throughout 2018/19
D3 - The organisation grants counter fraud staff unhindered access to its employees	Manage pool of Conduct Investigators	Development of internal data analytics capability – system upgrade and training	Completed
D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing		Response to Serious Organised Crime Pilot Project across Lincolnshire	Completed
		Use of pooled funding contributions from Lincolnshire's District Councils and Lincolnshire Police for provision of support to the Lincolnshire Counter Fraud Partnership	Completed

CIPFA Code of Practice – Key Principle E : Provide Resources

<p>E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy</p>	<p>Advice Promotion of counter fraud activity</p>	<p>Data provision & analysis of data matches identified through National Fraud Initiative 2018/19</p>	<p>Data submitted and review commenced</p>
<p>E2 - Plans and operations are aligned to the strategy</p>	<p>Organisational learning</p>	<p>Proactive counter fraud exercises:</p>	
<p>E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing</p>	<p>Reports to Audit Committee</p>	<ul style="list-style-type: none">• Procurement fraud (specific exercises)• Cyber risks – deeper dive exercise to follow up internal audit review of ICT security arrangements	<p>Completed</p> <p>Ongoing</p>
<p>E4 - Providing for independent assurance over fraud risk management, strategy and activities</p>		<ul style="list-style-type: none">• Follow up of investigation recommendation• Adult Social Care	<p>Ongoing</p> <p>Ongoing</p>

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Progress
CIPFA Code of Practice – Key Principle E : Provide Resources			
<p>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</p> <p>* Note also Specific Step – C3</p>		Investigations arising from whistleblowing reports and frauds identified	Completed
		Production of management reports and action plans to aid organizational learning – investigation outcomes and learning points	Completed
		Applications of sanctions – civil, disciplinary and criminal	Completed
		Seeking redress where successful prosecutions are achieved	Completed
		Promotion and publicity work through various media channels including fraud prevention measures	Completed
		Provision of advice on fraud risks and mitigating controls	Completed

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