

Counter Fraud

Annual Report



July 2022

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Appendix A - Counter Fraud Plan 2021/22

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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.



The Council continues to have effective counter fraud arrangements in place. The delivery and outcome of reactive counter fraud plan is monitored by the Audit Committee.

Key Messages

Fraud & Investigations

Counter Fraud & Investigation work has continued throughout 2021/22 with working practices adapting to new ways of working.

It is now generally accepted that there has been a general upturn in fraudulent activity arising from the pandemic with fraudsters adapting very quickly to take advantage of the ongoing pressures on public bodies.

Due to the nature of fraud remaining by and large a hidden crime it may still be some time before the full extent of loss to the UK economy and Local Government in particular is recognised.

We have delivered 90% of work planned for 2021/22.

In 2021/22 we carried forward **17** live investigations and received a further **12** referrals. **25** cases have been closed during the year with the following outcomes:

- 8 individuals subject to disciplinary proceedings -resulting in either a dismissal, final written warning or resignation.

- 5 cases currently with Lincolnshire Police
- 2 Management actions
- 10 No further action or unfounded

Whistleblowing activity

We continue to manage and triage the Whistleblowing hotline for Lincolnshire local authorities. An analysis of referrals made to the Reporting Line in 2021/22 identifies a total of 86 referrals were received (96 in 2020/21) with 59 referrals relating to districts (a slight drop from 63 in 2020/21).

- The main type of district referral relates to council tax and housing tenancy fraud
- The largest proportion of reports in 2021/22 related to City of Lincoln (29%) compared with 32% in 2020/21. SKDC at 23% (a significant decrease from 49% of total referrals in 2020/21) - there is no obvious reason why referrals relate mainly to these two districts
- Only 2 Covid-19 specific referrals were received in 2021/22 (8% of total in 2020/21).





The Council continues to have effective counter fraud arrangements in place. The delivery and outcome of proactive counter fraud plan is monitored by the Audit Committee.

Key Messages

Counter Fraud

In 2021/22 we undertook validation of applications submitted for Business Recovery Fund grants being offered to small businesses. As a result, we identified a large fraud in excess of £300k. This is currently being investigated by Lincolnshire Police and as part of our work has led to investigations of grant fraud in other Counties.

Maintaining awareness of fraud has been key. We have ensured regular communications were issued and are currently working on innovative methods of delivering our messages.

Lincolnshire Counter Fraud Partnership

The Partnership continues to meet its key aims of improving fraud resilience and fraud proofing across Lincolnshire by improving fraud intelligence: raising fraud awareness: sharing fraud intelligence, best practice and expertise. It provided the partners with a tailored fraud newsletter.

Key focus in 2021/22 related to council tax fraud/error: delivering the 2020 /21 Single Person Discount (SPD) bulk review and securing approval for the business case for a rolling review of SPD to enhance recoveries.

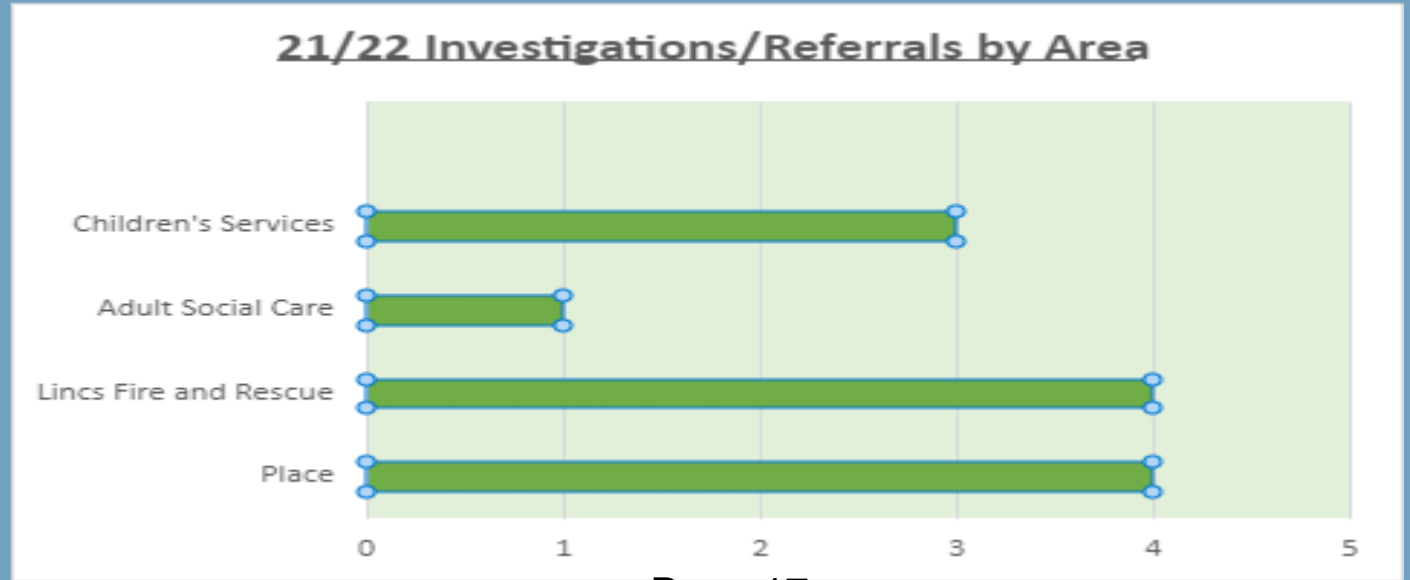
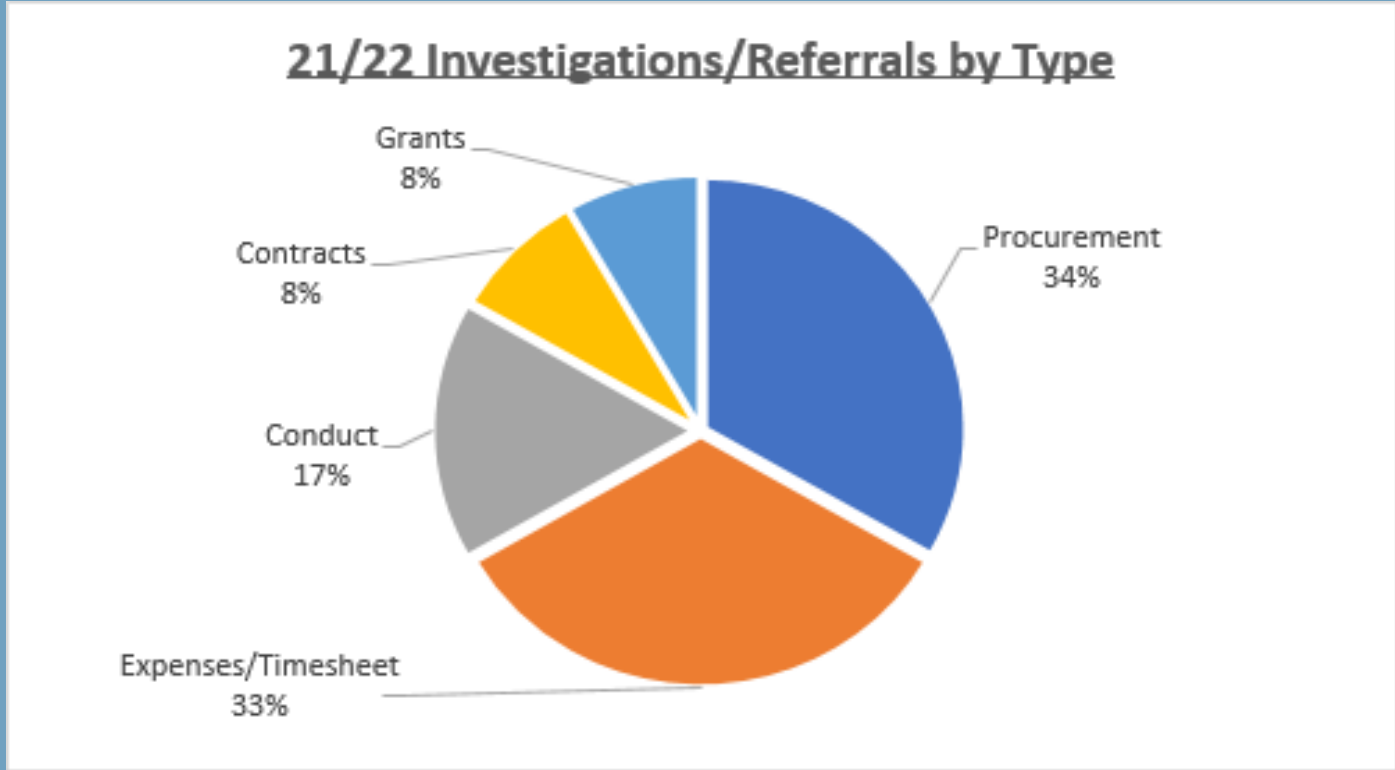
The 2021 SPD bulk review performed by Datatank concluded in November 2021 is estimated to generate Council Tax revenue of £1.3m net - with a net gain for LCC of £930k. The review removed 3062 discounts with an average cancellation rate of 3.8%.



Fraud Referrals

2021/22 saw a decrease in the number of fraud referrals received – 15 referrals in comparison with 20 in the previous year. 11 of these investigations were completed during the year and 4 have been carried forward at various stages of disciplinary or criminal investigation into 2022/2023.

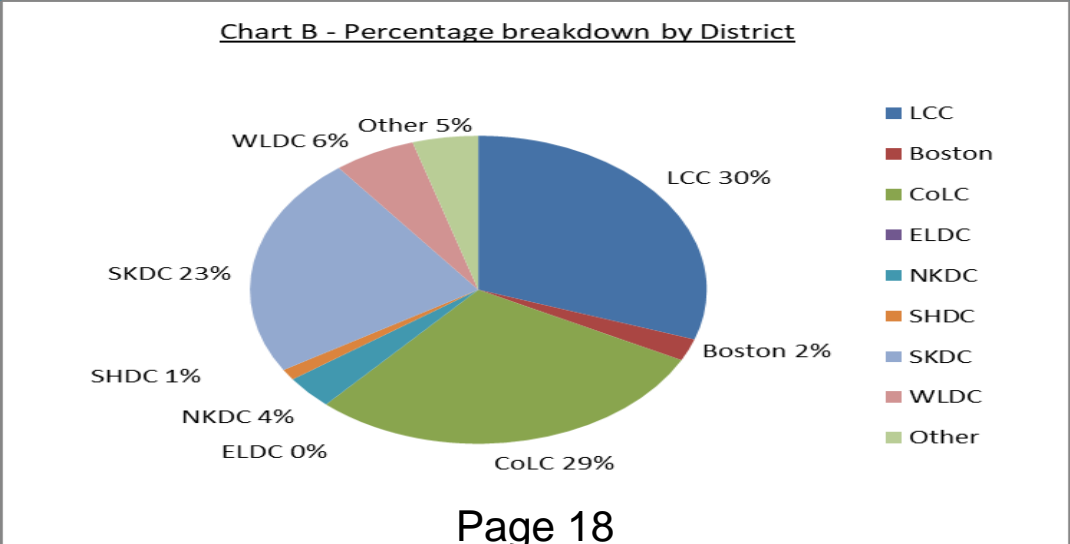
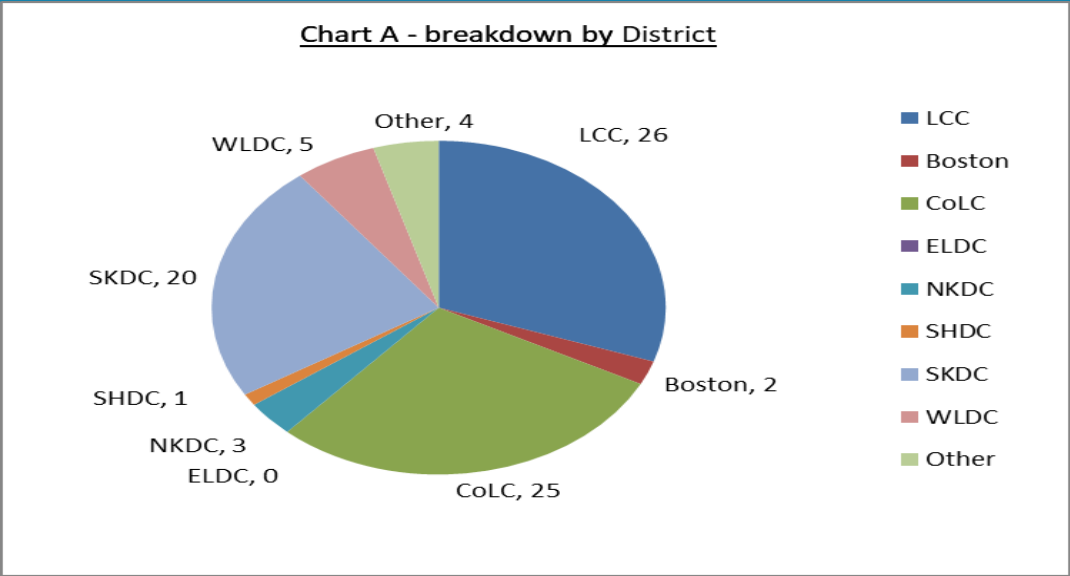
Types of the referrals are shown below in the available chart.



Whistleblowing activity – 86 Referrals in 2021-22

An analysis of referrals made to the Reporting Line in 2021/22 identifies a total of 86 referrals were received (96 in 2020/21) with 59 referrals relating to districts (a slight drop from 63 in 2020/21).

- The main type of district referral relates to council tax and housing tenancy fraud
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Investigation Outcomes

As expected, we have had a variety of outcomes from cases completed. We have managed to conclude a total of 25 cases during the year - we still have one long term case arising in 2019/20 that is on-going and this is being considered for criminal prosecution and we are currently going through a CPS Right of review process. We currently have 7 investigation cases open at various stages. The headlines regards outcomes include:

5

**Cases with
Police or Action
Fraud**

These are at various stages of investigation. Ensuring appropriate sanctions are given in investigations where we gather evidence to support a fraud is a key element in our fraud response



2

**Recoveries
made**

Recovery of losses through fraud is another key component of the Counter Fraud Policy. 2 recoveries of fraud losses (value £53,000k) have been made. One of our investigations in 2021/22 has a potential recovery in excess of £300,000. This is currently with the police for investigation and is expanding



3

Dismissals

Sanctions against those guilty of committing fraud are key a deterrent. 8 cases were subject to disciplinary proceedings with - 3 dismissals of the individuals involved.



1

**Significant
fraud
prevented**

We were able to directly contribute to the prevention fraud this year to the value of £450,000. We have pushed out the 'Zero Tolerance of Fraud' to employees throughout the LCC



**£12.5
Million saved**

The Counter Fraud and Investigation Team is in its 11th Year . In its 11 years it has been responsible for savings to the taxpayer of over £12.5 Million through recoveries and fraud stopped.



Proactive Work

Due to the changing circumstances and priorities brought about by the pandemic. The main areas of risk identified for post Covid-19 reviews were:

- ☐ **Cyber Fraud**
- ☐ **Procurement Fraud**
- ☐ **Payment and Creditor Fraud**
- ☐ **Payroll and Employee Fraud**
- ☐ **Grant Fraud**

We have been successful in delivering work in all of these priority areas as follows:

Cyber Fraud

We liaise regularly with the Information Assurance team on cyber fraud risks. This has been prevalent since the pandemic began and we have worked on joint communications to help awareness.

Procurement Fraud

We have also delivered proactive work on purchasing card use and contract review work. Procurement fraud is a key risk so we have also delivered awareness work to ensure relevant teams are aware of the threats. Card reviews have directly led to ongoing investigations.

Payment and Creditor Fraud

We identified at an early stage that there was a threat around supplier fraud with sought after goods and services e.g. PPE. We reviewed approximately 1000 new suppliers created since March 2020 and have found no evidence of any fraudulent transactions during that time. This provides some assurance that the Council's process for on-boarding new suppliers is effective.

Payroll and Employee Fraud

We routinely analyse payroll expense and allowance claims submitted. The change in working circumstances means the inherent fraud risks are potentially raised – therefore we identified payroll claims as a key proactive area for review. During the year a number of investigations / referrals were made in this area. These have resulted in 1 Summary Dismissal, 2 Management actions and 1 Final written warning

Small Business Grants work

The Counter Fraud and Investigation and Finance Teams were involved in the design of systems to validate the applications submitted for Business Recovery Fund grants. In an area of high fraud risk, we provided advice on fraud controls required to deter fraudulent submissions.

We also employed our data analytic skills to identify potentially fraudulent applications – we conducted bank account and active company checks against all 500+ applicants. We also matched several datasets to identify duplicates - our reviews directly led to £77.5k payments being stopped. To date £1.64m has been paid to help small businesses in this scheme.

Proactive work - Fraud Awareness

Ensuring and maintaining awareness plays a key part in Lincolnshire County Council's response to fraud.

The change in working arrangements and conditions required following the pandemic has meant that we have not been able to use some of our traditional methods of doing this – for example, face to face presentations.

However, we have adapted our skills and resources to ensure that key messages and information can still be released.

- Developing an in-house version of the fraud awareness e-learning training 'Fraud in the Workplace' for launch to LCC staff and managers. Content has been updated and has a new look / feel which should encourage completion. It includes a 'tone from the top' video message from our Chief Executive which promotes our anti-fraud culture and zero tolerance to fraud. This will be launched in the 1st Quarter of 2022/23



Targeted communications

We have worked closely with specific service areas to tailor online presentations to help raise fraud awareness relevant to their work. These have included Children's Services, Business Support and Corporate Property Teams.

Developing a Counter Fraud Hub to consolidate Counter Fraud information and make it easier and clearer to signpost staff to relevant information.

Lincolnshire Counter Fraud Partnership

LCFP focus 2022/23

LCFP will continue to share local and national fraud intelligence and manage the Confidential Reporting Line. It will continue to support the districts in raising fraud awareness and provide a focus on fraud risks. It will provide partners with re-freshed 'Fraud in the workplace' e-learning for use by staff and members.

It will continue to support generation of council tax revenue from dealing pro-actively with council tax fraud / error by delivering the SPD Continuous Rolling Review (revised target November 2022). The project is a collaboration between LCC, the Lincolnshire districts and the OPCC.

It will strengthen the anti-fraud culture, proactively manage fraud risk and improve fraud resilience across Lincolnshire by keeping the council tax records accurate and up to date throughout the year.

The project is estimated to deliver revenue of £7m gross over a 5 year period, **£2m net more** over the same period compared to the current biennial approach. LCC's net revenue return is estimated at £4.5m.

Helping partners to minimise Covid-19 Business Grant fraud by sharing fraud intelligence, alerts and best practice throughout the pandemic

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle A : Acknowledge Responsibility		
A1 - Acknowledge the threat of fraud and corruption	Member Training and Audit Committee Support	Outstanding – carried forward to 2022/23 workplan
A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption	Counter Fraud Annual Plan and Progress Reports to Audit Committee	Completed
A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks	Lincolnshire Counter Fraud Partnership Plan and Reports for Lincolnshire Finance Officers Group	Completed
A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption		
20 Days (3%)		

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
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	Horizon Scanning & Annual Self-assessment against Fighting Fraud and Corruption Locally.	Completed
	Benchmarking Activity – CFACT Tracker (annual survey), peer groups and trend analysis of LCC investigations	Completed
	Research and develop fraud loss estimate system	Outstanding
	Collaboration in assurance mapping process - Counter Fraud and Investigations, Audit and Risk teams	Completed
	Update of Fraud Risk Registers	Completed
	Fraud Risk Register – present report to Audit Committee	Completed
	Identify priority service areas for awareness training	Completed
20 Days (3%)		

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
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 C2 - Strategy includes the organisation's use of joint working or partnership approaches C3 - The strategy includes both proactive and responsive approaches:	Annual Counter Fraud Work Plan	Completed
	Strategy and Policy review/ refresh	Counter fraud policies currently under review – Presentation to Audit Committee July 2022
	Update investigation practice notes	Completed
	Refresh Communications Strategy	Completed
	Feasibility study for establishment of a County wide data hub	Completed

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
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CIPFA Code of Practice – Key Principle C : Develop a Strategy

Proactive action:

- 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

Responsive action:

- Detecting fraud through data and intelligence analysis
- Implementing effective whistleblowing arrangements
- Investigating fraud referrals
- Applying sanctions and seeking redress

10 Days (1%)

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
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 resource	Completed
	Whistleblowing facility – logging reports, referrals and follow up action	Completed
	LCC – Support and advice	Completed
D2 - The organisation utilises an appropriate mix of experienced and skilled staff	Engagement with national and regional best practice groups (including Midland Fraud Group) – sharing intelligence, CIPFA Standards and Fighting Fraud and Corruption Locally.	Completed
	Enhance data analytic training and capability	Completed
D3 - The organisation grants counter fraud staff unhindered access to its employees	E-Learning	Outstanding & carried forward to 2022/23 work plan
D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing		
70 Days (9%)		

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
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	Completion of work in progress from 2020/21 Counter Fraud Plan	Completed
	National Fraud Initiative—Processing & Reporting	Completed
	Promotion and Delivery of Communications Plan, targeted fraud awareness sessions and Fraud Clinics (Virtual delivery)	Completed
E2 - Plans and operations are aligned to the strategy	Pro-active reviews on higher risk areas – linked to fraud risk assessment. Key priorities for 2021/22 are currently: Covid grants and support schemes Procurement and contracts Adult Social Care Support for Internal Audit due diligence and key control testing. (Payroll & employees/ payments & creditors)	Counter Fraud Work Plan amended to reflect changed work priorities due to Covid-19 - completed
E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing	Liaison & intelligence sharing meetings with Information Assurance Teams (Cyber risks)	Completed
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		

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
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CIPFA Code of Practice – Key Principle E : Take Action

* Note also Specific Step – C3		
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170 Days (23%)

365 days for Investigations (49%)

Specific step (from CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
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Contingency	Emerging risks	
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90 Days (12%)

TOTAL – 745 DAYS

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