

COUNTER FRAUD

Progress Report



November 2022

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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.

Key Messages

- The inherent risks of fraud remain high and we continue to promote vigilance on how fraud can occur. Raising awareness to staff of the changing methods which fraudsters use to exploit weaknesses and commit wrongdoing. We receive Intelligence alerts from the National Anti- Fraud Network(NAFN) which provide information about fraud, risks and trends which may affect the Council.
- We have updated the Counter Fraud, Whistleblowing and Anti-Money Laundering policies which – will be launched following approval by the Corporate Leadership Team and the Audit Committee.
- Between April and September 2022, we have seen an increase in the number of direct bank mandate fraud attempts against LCC. Working with Serco colleagues, we have successfully prevented losses exceeding £1m.
- We are actively working on 8 cases currently, some of which are complex and take significant resources to gather evidence to prepare files to take forward for further sanctions including prosecution.
- There has been a slight decrease in whistleblowing referrals received between April and September 2022 (44), in comparison to the same period for 2021/22 (49).
- We continue to work on some complex cases of significant value alongside Lincolnshire Police and other law enforcement agencies – which we anticipate will lead to prosecutions and financial recoveries.
- We have continued our awareness work in 2022/23 to promote knowledge and understanding of fraud and have made progress with several new areas being developed:
 - New Counter Fraud Hub – to be launched in November 2022
 - Communication plan and regular updates through communication channels
 - To ensure our methods of raising awareness remain interesting and informative

9

**Fraud / Theft
referrals November
2021 to October
2022**

8

Active cases

11

**Cases closed
November 2021 to
October 2022**

Fraud Referrals

Referrals

We have received 9 referrals received since the previous Progress Report in November 2021, which cover the following areas:

- 4 relate to bank mandate attempts
- 3 relate to procurement card fraud / misuse
- 1 allegation of theft
- 1 fraudulent claim for time or expenses - Management oversight is key in preventing and identifying this type of fraud.

Mandate Fraud

Since April 2022 we have seen an increase in the number of reported bank mandate fraud attempts, which are normally of high value and fraudsters are attempting to obtain monies against our Financial systems.

Following training provided to the Serco Masterdata team in 2020, regarding the processes for verifying creditor information, we currently have in place a fraud alert process with the team to ensure any attempts are notified to Counter Fraud and dealt with swiftly. Occurrences are reported to Action Fraud and Lincolnshire Police (Economic Crime Unit).

Discussions have recently taken place between Serco and LCC Financial Management to determine any additional actions required to raise awareness and publicise communication on these types of fraud.

Cases referred to Police / Crown Prosecution Service

We have 5 cases currently with Lincolnshire Police with a view to taking criminal proceedings. All of these are high value cases, and we anticipate that these will result in prosecution and recoveries of losses.

This further demonstrates our zero-tolerance approach and desire to ensure that perpetrators of fraud receive the appropriate sanctions.

Investigation Outcomes

Mandate Frauds

Four cases reported to Police as fraud in action. These were attempts to obtain in excess of £1.1Million from the Council by redirecting payments to fraudsters bank accounts. A recent update from Police confirmed these had been recorded as crimes but no investigation has taken place by police as no actual financial loss has occurred to the Council.

Disciplinaries

1 case finalised in 2022/23 has led to a final written warning being given to a member of staff.

No Further Action cases

4 of our cases recently resulted No further action – Three of these cases related to procurement card usage that on investigation identified non-compliance with the Procurement card policy and were dealt with by advice being given.

The further case was a referral made to Police and Crown Prosecution Service in 2019 which has resulted in Crown Prosecution Service (CPS) requesting further evidence to be obtained by Police. A decision was then taken by CPS to take no further action due to evidential issues. Advice was requested by management of the service area from Legal Services to determine if any civil action could be pursued. We await a decision on action.

Recovery of Losses

We have not been able to make any recoveries of fraud losses so far in 2022/23. However, it is difficult to influence the timing of when recoveries are made – this is due to the many variable factors that can be involved in both disciplinary and criminal cases. We have several ongoing cases that are progressing with the Police and Crown Prosecutor and it is anticipated on a conviction to result in recoveries of monies to the Council (potentially up to £340K – 2 cases).

This is a key strand of our Counter Fraud Policy and we seek to make these recoveries through several routes available to us.

Fraud Risk Register

We continue to gather fraud intelligence and information to ensure details against our fraud risk categories are maintained up to date. The review of the Council's Fraud Risk Register is currently on-going and a report will be presented at the March 2023 Audit Committee.

The Fraud Risk Register assists the council to identify where our most significant risks lie. This register will be regularly updated taking into account risks identified from our fraud investigations and National fraud risks identified. From identifying areas of risk within the council we can advise management on preventative measures and controls.

National Fraud Initiative

We commenced the 2022/23 National Fraud Initiative (NFI) process on 31 August 2022 and have published the Privacy Notice to all staff in September payslips and also on the Intranet. Between 7 October 2022 and 18 November 2022 we will be uploading Payroll and Creditor data to NFI .

Data matching information will be published by NFI in January 2023, and we will commence reviews from March 2023. This is a large piece of work involving data relating to Payroll payments for current year and creditor / supplier data for the past 3 years.

This information will need to be reviewed and checked and any discrepancies resolved. This review may also lead to the identification of fraud which will then be investigated separately from the NFI process.

The work supports our overall assurance on finance systems maintained by the Council and SERCO as our provider.

Fraud Awareness

E-Learning - Our in-house fraud e-learning training has been developed to be launched in October 2022. It includes a 'tone from the top' video message from the Chief Executive which promotes our anti-fraud culture and zero tolerance approach to fraud

Counter Fraud Hub - We will be launching the new Counter Fraud Hub in November which will be communicated to all staff via the Council communications system. This will include content around the following areas - How to report fraud , how to report whistleblowing information, access to E-Learning module on Lincs to Learn, case studies.

Whistleblowing - The key theme of our recent communications has been to signpost the whistleblowing arrangements and encourage referrals.

Approach

The Counter Fraud Partnership has been in place for ten years, this year the Council and partners started a review to ensure the partnership remains fit for purpose and works for all partners. We are currently agreeing a new approach, which maintains the partnership and benefits of joint working but also now offers partners a more bespoke, local option tailored to individual District Council requirements.

2022/2023 Activity

The Counter Fraud team at Lincolnshire continue to administer and provide a single point of contact for the Confidential Reporting Line and provide advice and support to key contacts within each of the District Councils.

Whistleblowing reporting

Statistical reporting and analysis of data relating to referrals received through the confidential reporting line is shared annually with each of the District Councils.

Proactive Work

Work includes the following areas requested by two Districts in 2022/23:

- Parish Precept payments
- Internal investigation procedures & practice
- Review of Fraud Risk Register.

Specific step (From CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle A : Acknowledge Responsibility		
<p>A1 - Acknowledge the threat of fraud and corruption</p> <p>A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption</p> <p>A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks</p> <p>A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption</p>	<p>Member Training and Audit Committee Support</p> <p>Counter Fraud Annual Plan and Progress Reports to Audit Committee</p> <p>Lincolnshire Counter Fraud Partnership Plan and Reports for Lincolnshire Finance Officers Group</p>	<p>Outstanding</p> <p>Part Completed</p> <p>On-going</p>
14 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	Horizon Scanning & Annual Self-assessment against Fighting Fraud and Corruption Locally. Benchmarking Activity – CFACT Tracker (annual survey), peer groups and trend analysis of LCC investigations	Deferred until Quarter 4
B2 - The organisation identifies the risks of fraud and corruption	Update and presentation of Fraud Risk Registers Fraud Risk Register – present report to Audit Committee	March 2023 March 2023
B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures	Identify priority service areas for awareness training Collaboration in assurance mapping process - Counter Fraud and Investigations, Audit and Risk teams	On-going On-going
B4 – The organisation evaluates the harm to its aims and objectives		
15 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		
<p>C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks</p> <p>C2 - Strategy includes the organisation's use of joint working or partnership approaches</p> <p>C3 - The strategy includes both proactive and responsive approaches:</p> <p>Proactive action:</p> <ul style="list-style-type: none"> • Develop counter fraud culture • Launching of new Counter Fraud Hub & Fraud E-Learning • 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 <p>Responsive action:</p> <ul style="list-style-type: none"> • Detecting fraud through data and intelligence analysis • Implementing effective whistleblowing arrangements • Investigating fraud referrals • Applying sanctions and seeking redress 	<p>Annual Counter Fraud Work Plan 23/24</p> <p>Strategy and Policy review</p> <p>Update investigation practice notes</p> <p>Fraud Communications Strategy</p> <p>Launch of new Counter Fraud Hub and Fraud E-Learning (Q1/2022)</p> <p>Use of Data Analysis process in identifying Fraud Risk.</p> <p>Publication of LCC Whistleblowing arrangements</p>	<p>On-going</p> <p>Counter Fraud, Anti-Money Laundering, Whistleblowing policy to Audit Committee in November 2022.</p> <p>Deferred to Q4</p> <p>Submitted to Audit Committee November 2022</p> <p>November 2022</p> <p>On-going</p> <p>For publication after November 2022 Audit Committee.</p>
21.5 Days (4%)		

Specific step (From CIPFA Code of Practice)	Nature of work and Indicative Scope	Scheduling
CIPFA Code of Practice – Key Principle D : Provide Resources		
<p>D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk</p>	<p>Lincolnshire Counter Fraud Partnership resource</p> <p>Whistleblowing facility – logging reports, referrals and follow up action</p> <p>LCC – Support and advice</p>	<p>On-going</p> <p>On-going. To date we have received xx referrals covering the LCC and District Councils.</p> <p>On-going.</p>
<p>D2 - The organisation utilises an appropriate mix of experienced and skilled staff</p>	<p>Engagement with national and regional best practice groups (including Multi Agency Intelligence Network (MAIN Lincs Police) & Midland Fraud Group) – sharing intelligence, CIPFA Standards and Fighting Fraud and Corruption Locally.</p>	<p>CFIT Team attend multi-agency meetings on a monthly and quarterly basis.</p>
<p>D3 - The organisation grants counter fraud staff unhindered access to its employees</p>	<p>Enhance data analytic training and capability</p> <p>Schools E-Learning (development and promotion)</p>	<p>On-going</p>
<p>D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing</p>	<p>Fraud Awareness E learning LCC</p> <p>Launch of new Counter Fraud Hub</p> <p>NSDC Fraud Risk workshop</p>	<p>Counter Fraud Awareness E – Learning being published November 2022.</p> <p>New Counter Fraud Hub being published in November 2022.</p> <p>Completed</p>
53 Days (10%)		

Specific step (From CIPFA Code of Practice)	Nature of work and Indicative Scope	
CIPFA Code of Practice – Key Principle E : Take Action		
<p>E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy</p>	<p>Completion of work in progress from 2021/22 Counter Fraud Plan</p>	<p>Completed</p>
<p>E2 - Plans and operations are aligned to the strategy</p>	<p>National Fraud Initiative–Processing & Reporting for 2022/23</p>	<p>NFI commenced on 31 August 2022 with data confirmation.</p>
<p>E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing</p>	<p>Promotion and Delivery of Communications Plan, targeted fraud awareness sessions and Fraud Clinics (Virtual delivery)</p>	<p>Privacy Notice published on payslips and Intranet notices on 30 September 2022.</p>
<p>E4 - Providing for independent assurance over fraud risk management, strategy and activities</p>	<p>Pro-active reviews on higher risk areas – linked to fraud risk assessment. Key priorities for 2022/23 are currently:</p> <ul style="list-style-type: none"> • Procurement Card Review (across all Services) 	<p>Commences November 2022</p>
<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>	<ul style="list-style-type: none"> • Adult Social Care • Support for Internal Audit due diligence and key control testing. (Payroll & employees/ payments & creditors) 	<p>Fire Service Procurement card review at report stage.</p>
		<p>Deferred to 2023</p>
		<p>On-going</p>
<p>48 Days (9%)</p>	<p>290 days for Investigations (55%)</p>	

Additional work	Nature of work and Indicative Scope	
Contingency	Other - emerging risks / expansion of planned work.	
81.5 Days (16%)		
TOTAL – 523 DAYS		

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