

Counter Fraud

Annual Report



July 2021

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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 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 on the work undertaken as part of the agreed internal audit plan.

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Appendix B - Counter Fraud Plan 2020/21

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Introduction

Key Messages

Counter Fraud

The worldwide impact of the Covid-19 pandemic has affected us all. Lincolnshire County Council is no exception and we have had to put in place measures to cope with these unprecedented circumstances.

The last year's events have brought fraud into sharp focus. Unfortunately, fraudsters will exploit situations where people are vulnerable as their judgment may be affected – so fraud risks are heightened in the current landscape.

Given the circumstances, it is not surprising that our original planned work was impacted although we still delivered 71%. We reported to the Committee in November 2020 that we needed to change direction with an agile response – this included support to mitigate new issues and emerging risks. This approach proved to be successful as we met 100% of the revised plan.

High demand for fraud investigation work has continued throughout 2020/21 with 20 fraud referrals made – these led to 17 investigations being commenced. Our investigations resulted in the dismissals of 5 individuals during the year – emphasising and supporting the council's zero tolerance approach to fraud.

We have not seen high recoveries during the year. However, this can often be the result of timing and we are currently delivering investigations that should see significant fraud losses being recovered in 2021/22.

Conversely, our work has directly contributed to some high value fraudulent payments being stopped – valued at over £4.5 million. We have also been heavily involved in fraud prevention work around grants where our data analysis input identified and stopped several large payments being issued.

71%

Original plan completed

100%

Revised plan completed

20

Fraud referrals

5

Dismissals

Approach

Prevention of fraud within Lincolnshire County Council is everyone's responsibility, although one of the main roles of the Counter Fraud and Investigation Team is to support the management of the wide ranging fraud risks faced by the authority. All councils have a duty to protect the public purse and a major part of this is by limiting exposure to fraud and corruption and reducing risk through effective prevention and detection.

The team's work is split equally between:

- Reactive - fraud investigation, applying sanctions and recovery of fraud losses
- Proactive - based around prevention and detection of fraud

Fraud is a criminal offence – it is a deception which is deliberate and intended to provide a direct or indirect personal gain or to cause a loss. It is any illegal act characterised by deceit, concealment or violation of trust – frauds are perpetrated by individuals and organisations to:

- obtain money, property or services
- avoid payment or loss of services
- secure personal or business advantage

Our fraud investigation activity and headlines during 2020/21 are explored in more detail on pages 3-4.

Much of our proactive work completed during 2020/21 was based around ensuring fraud awareness and vigilance is maintained during the pandemic.

Fraud is the most commonly experienced crime in the UK and the risks are only intensified by the current situation and the vulnerabilities it brings.

We refocused our plans to deliver more intelligence led proactive work aimed at detection during the year. Our proactive work is summarised on pages 5-6

For the Audit Committee's part, they are charged with ensuring that there is independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. Councils need to ensure an 'anti fraud culture' with clear values and standards in which beating fraud and corruption is part of the daily business.

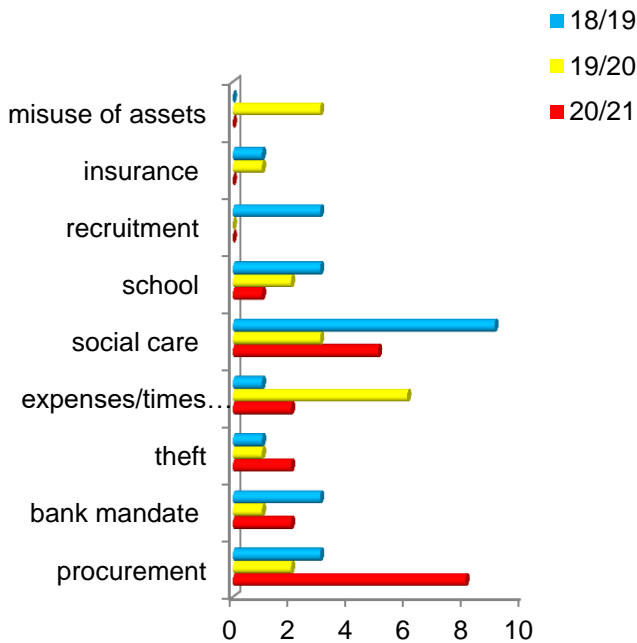
The Local Government Association's Councillor's Workbook on Bribery and Fraud Prevention contains vital information for members and includes 10 'top tips' designed to help guide organisations in developing and maintaining an effective anti-fraud culture. These include setting the 'tone from the top' and knowledge and understanding of fraud risks.

All areas noted within the Workbook are covered within Lincolnshire County Council's Counter Fraud framework and strategic policies – for example, we align all our planned work to the main principles within the CIPFA Code of Practice. We also provide regular information on the effectiveness of our response through the suite of regular reports presented to the Audit Committee.

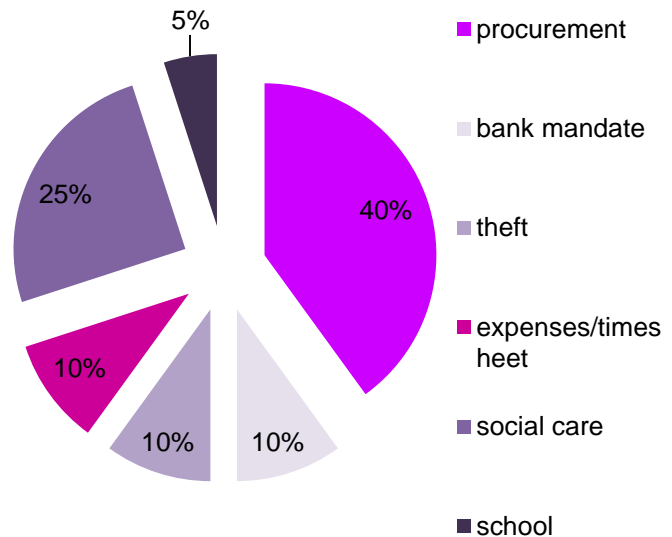
Fraud Referrals

2020/21 saw a very slight increase in the number of fraud referrals received – 20 referrals in comparison with 19 in the previous year. 11 of these investigations were completed during the year and 9 have been carried forward at various stages of disciplinary or criminal cases. Overall, this presents a picture highly consistent with details reported in 2019/20.

Analysis of fraud referrals (from 2018/19 to 2020/21)



2020/21 Breakdown of cases referred



We have analysed the cases received and identified some movement in the types of cases recorded. The most prevalent area of fraud referrals during the year was around procurement fraud – this is a wide ranging area so can cover from low value purchases through to award and management of significant contracts. It is an area that we identify as a key fraud risk and constantly monitor as a result. Social care referrals remain second highest - with an increase in the year. Again, we have a long term plan of proactive work to deliver on the main fraud themes in this area.

Data is showing a trend where investigations in schools are steadily declining. Only one case was recorded in 2020/21 and we see this as a positive by-product of the fraud awareness and deterrent work undertaken in schools. It is also noted that the number of expenses related cases fell sharply in the last 12 months – this could be affected by the reduction in travel and change in working arrangements. We also regularly analyse payroll data to identify potential fraud and error.

Investigation Outcomes

As expected, we have had a variety of outcomes from cases completed. We have managed to conclude a total of 18 cases during the year - we still have one long term case arising in 2019/20 that is ongoing and this is being considered for criminal prosecution. We currently have 12 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



3

**Recoveries
made**

Recovery of losses through fraud is another key component of the Counter Fraud Policy. 2 recoveries of fraud losses (value £3k) were made in 2020/21. We also worked with strategic partners to recover a £4.5m bank mandate fraud where controls failed and a payment was made.



5

Dismissals

Sanctions against those guilty of committing fraud are key a deterrent. 5 cases have led to dismissals of the individuals involved. A further employee received a Final Written Warning.



1

**Significant
fraud
prevented**

We were able to directly contribute to the prevention of a significant bank mandate fraud taking place. We have done extensive work on raising awareness in this area and this prevented a payment of £60k being made to fraudsters. .



£12.2

**Million
saved**

The Counter Fraud and Investigation Team celebrated 10 years since its formation during the year. In that time, the team has saved the taxpayer over £12m through recoveries and fraud stopped.



Proactive Work

We reported in November 2020, that we had to revise our planned work for 2020/21 due to the changing circumstances and priorities brought about by the pandemic. The main areas of risk identified for post Covid-19 reviews were:

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

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

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. We have reviewed over 50000 claims made in 2020 and have identified no fraudulent claims – this provides assurance on the robust operation of controls.

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.

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 an ongoing investigation.

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.

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.

Cyber Fraud has been a key area of activity during the pandemic began – it particularly preys on exploiting people's confusion and vulnerability which is obviously high under the recent unique circumstances we have experienced.

The recent annual Active Cyber Defence report issued by the National Cyber Security Centre identified that:

- More than 11,000 UK government-themed phishing campaigns were taken down – this was more than double the 2019 figure
- More scams were 'taken down' in the last year than in the previous three years combined

Closer to home, technical security controls stop over 5000 malicious e mails reaching staff e mail accounts every month. These could lead to sensitive data being accessed or harmful malware released on LCC systems if they evaded controls.

In view of the close links between cyber crime and fraud, we have formed a close working relationship with the Information Assurance Team and continue to work on knowledge sharing and joint communications to help raise awareness of the risks.



Fraud Newsletter

We have developed a staff newsletter providing updates and information to help maintain and update fraud awareness. This is currently at draft stage and we are using new methods to ensure the material issued has maximum impact.

Schools Hub

We have developed a 'one stop shop' for schools and their employees to access updated fraud information.

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.

General communications

Much of our communications campaign for 2020/21 was based around rapid response to the issues emerging. However, we were also able to release information on key themes and 'red flag' warning signs. We issued a series of messages during International Fraud Awareness Week in November 2020 including a media release on the role of the Counter Fraud & Investigation Team in saving £12.2m since it was formed.

E-Learning

We are currently working on reshaping our successful in house Fraud Awareness e-learning module. This will contain updated information and offer a fresh new look to the course.

Lincolnshire Counter Fraud Partnership

We continue to work with partners to protect the Public Purse in Lincolnshire. The Partnership works to improve fraud resilience & fraud proofing across the county by improving fraud intelligence, raising fraud awareness, sharing best practice & expertise. Continued funding secured from all 7 districts and Lincolnshire Police & Crime Commission for 2021/22. It does this by:

Raising fraud awareness by maintaining and promoting fraud awareness e-learning: sharing pro-active fraud awareness campaigns e.g. International Fraud Awareness Week and developing a Fraud Newsletter aimed at our District Council partners

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

Providing and managing the Confidential Reporting Line – 67 reports forwarded to partner councils & agencies in 2020/21

Managing local and national intelligence sharing about emerging risks and threats. This enabled swift responses to scams and potential frauds e.g. supply of PPE and cyber fraud including phishing and spoofing attempts

Supporting District Council arrangements to generate revenue from Council Tax fraud and error:

The Single Person Discount review has been delayed due to the pandemic but work has been ongoing during 2020/21 to ensure that it can take place between April & October 2021. It is estimated to produce gross revenue of £983k - £704k (LCC): £122k (Police) and £113k (districts).

Benchmarking

Benchmarking data is key in helping assess effectiveness in responding to the threat of fraud. It allows understanding of how well the council is performing in this area – for this reason we include it within our annual Counter Fraud Work Plan.

It is not an easy science as councils have different arrangements in place. Lincolnshire County Council has a dedicated fraud team in place with qualified fraud professionals – however, many authorities do not. We have provided some comparison with Midland Fraud Group partner authorities – please refer to Appendix C.

Under the Local Government Transparency Code, councils must publish the following information about their counter fraud work:

- ☐ total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
- ☐ total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
- ☐ total amount spent by the authority on the investigation and prosecution of fraud
- ☐ total number of fraud cases investigated

Our most recent figures for 2020/21 in this category are:

**Total number
: fraud
employees**

6 (4.8 FTE)

**Total number
: fraud
specialists**

4 (2.6 FTE)

**Total amount
spent by
authority**

£237115

**Total number
of frauds
investigated**

17

We submit data for the national annual benchmarking exercise known as the CIPFA Fraud and Corruption Tracker. However, this is not mandatory so not all councils take part (around 50% of County Councils) – therefore the results reported may not show the ‘full picture’. There are parallels between the Tracker and our fraud intelligence – procurement fraud is high risk as is Social Care and this mirrors our fraud risk assessment and cases referred in 2020/21. 43% of respondents have a dedicated counter fraud team.

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
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
	Corporate Leadership and Directorate Leadership Team training and liaison sessions	Outstanding
A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption	Review of Terms of Reference for Lincolnshire Counter Fraud Partnership going forward	Outstanding
	<ul style="list-style-type: none"> • Training • Briefing Sessions • Engagement • Updates • Publications 	
25 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	Completed
	Benchmarking Activity – CFACT Tracker (annual survey) and liaison with Midland Fraud Group colleagues	Completed
B2 - The organisation identifies the risks of fraud and corruption	Review historic investigations – trend analysis purposes	Completed
	Research and develop fraud loss estimate system	Outstanding
B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures	Assurance Mapping process - Counter Fraud and Investigations, Audit and Risk teams	Completed
	Update of Fraud Risk Registers	Completed
B4 – The organisation evaluates the harm to its aims and objectives	Fraud Risk Register – present report to Audit Committee	Completed
	Identify priority service areas for awareness training	Completed
	Support for District partners on Fraud Risk Register update and development	Outstanding
32 Days (4%)		

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	Annual Counter Fraud Work Plan	Completed
	Strategy: Refresh Counter Fraud Strategy Counter Fraud Policy Fraud Response Plan	Counter fraud policies currently under review – outstanding
C2 - Strategy includes the organisation's use of joint working or partnership approaches	Whistleblowing Policy	
	Money Laundering Policy	
C3 - The strategy includes both proactive and responsive approaches:	Refresh investigation practice notes	Outstanding
	Refresh Communications Strategy	Completed
	Feasibility study for establishment of a County wide data hub	Outstanding
	General horizon scanning	Completed
	Fighting Fraud and Corruption Locally - response	Completed

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>Proactive action:</p> <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 <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 		

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

100 Days (14%)

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	Promotion and Delivery of Communications Plan, Fraud Awareness sessions and Fraud Clinics Completion of work brought forward from 2019/20 plan National Fraud Initiative—Processing & Reporting	Completed Completed Completed
E2 - Plans and operations are aligned to the strategy	Proactive counter fraud exercises – driven by Fraud Risk Register priorities:	Counter Fraud Work Plan
E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing	<ul style="list-style-type: none"> • Support for due diligence audits • Social Care – Financial Abuse • Social Care – overstated care needs • Social Care – Financial Assessments • Schools and establishments • Cyber Fraud • Procurement and Contract Management • Payroll and Employees • Payments and Creditors • False Accounting • Identity Fraud • Insurance 	amended to reflect changed work priorities due to Covid-19 - 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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164 Days (23%)

320 days for Investigations (45%)

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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73 Days (10%)

TOTAL – 726 DAYS

Appendix C

Comparison of County Councils (open data details published under **Local Government Transparency Code**)

2019/20 * 2020/21 where available	Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	Total amount spent by the authority on the investigation and prosecution of fraud (£)	Total number of fraud cases investigated
Lincolnshire County Council	6 (4.8 FTE)	4 (2.6 FTE)	237115	17
Shropshire County Council	3 (2 FTE)	3 (2.76 FTE)	90000	10
Leicestershire County Council	1 (0.2 FTE)	1 (0.2 FTE)	3324	5
Oxfordshire County Council	4 (4 FTE)	3 (3 FTE)	Information not captured	26
Suffolk County Council	9 (1.25 FTE)	2 (2 FTE)	69800	37
Staffordshire County Council	3 (1.1 FTE)	1 (1 FTE)	71969	8