

1. Introduction

- 1.1. This annual report details the work performed by Lancashire County Council ('the council') to prevent and detect fraud and corruption. Our previous annual reports have also been presented to both the Standards Committee and the Audit Committee. However, following changes to the standards regime the Standards Committee has been disbanded and the Audit Committee's remit will be extended to include oversight of the council's counter fraud and whistleblowing arrangements.
- 1.2. The National Fraud Authority has estimated that the annual cost of fraud to the UK economy has increased from £38 billion in 2010/11 to £73 billion in 2011/12. The council continues to have a clear commitment to minimising its exposure to fraud and corruption which is set out in the council's Anti Fraud Policy as follows:
- "Lancashire County Council values its reputation for financial probity and reliability. We recognise that over and above any financial damage suffered, fraud may also reflect adversely on its image and reputation. Our aim therefore is to limit the Authority's exposure to fraud by:
- Instituting and maintaining cost effective measures and procedures to deter fraud;
 - Taking firm and vigorous action against any individual or group perpetrating fraud against the county council;
 - Encouraging our employees to be vigilant and to report any suspicion of fraud, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
 - Rigorously investigating instances of alleged fraud and pursuing perpetrators to seek restitution of any asset fraudulently obtained together with the recovery of costs; and
 - Assisting the police and all other appropriate authorities in the investigation and prosecution of those suspected of fraud."
- 1.3. The council's Internal Audit Service plays a key role in helping the council to prevent and detect fraud, and is responsible for investigating suspected frauds at the direction of the County Treasurer, Management Team and in response to whistleblowing.
- 1.4. This report is based upon the work we have performed on special investigations and counter fraud during 2011/12. As investigations may cross over more than one financial year we have included investigations which were either ongoing or completed by 31 March 2012. Due to the sensitive nature of our investigations we are unable to provide specific details for cases which are ongoing.
-

2. Impact on the control environment

Overall opinion

- 2.1. We have identified no single issue that has a material impact on the council's overall control environment. Therefore, in our opinion the issues we have identified are not sufficiently significant to impact on the annual governance statement.
- 2.2. All our investigations are reported separately to the relevant directorate to allow appropriate action to be taken. Additionally, where our investigations identify weaknesses in control a separate report is issued to strengthen the control environment.
- 2.3. We are required by the Audit Commission to report any individual frauds exceeding £10,000 but no individual fraud has exceeded this level.

3. Fraud work undertaken

Special Investigations

- 3.1. During 2011/12 we undertook a total of 24 special investigations, 18 of which were completed during the year.
 - 3.2. A wide range of allegations were investigated, including: inappropriate expenditure; breaches of funding terms and conditions; income not being banked and income shortfalls; inappropriate use of ICT equipment; misuse of service users' bank accounts; data breaches; failure to declare business interests and theft of county council property.
 - 3.3. A summary of the outcomes for the closed investigations is provided below:
 - 5 employees were dismissed;
 - 4 employees were not dismissed but received disciplinary warnings;
 - 2 employees resigned and further action was not warranted;
 - 2 cases were referred to the police as disciplinary action was not appropriate;
 - 1 former employee received a conditional registration order from the General Teaching Council and their claim for unfair dismissal was rejected by the Employment Tribunal;
 - 4 of the investigations did not result in disciplinary action; and
 - 6 of the investigations are ongoing.
 - 3.4. A number of the investigations above, including those where no disciplinary action was taken, have identified weaknesses in control. Where this is the case reports have been provided to management with recommendations to improve the control environment. These will be followed up during the 2012/13 financial year.
-

Counter fraud arrangements

- 3.5. A total of 125 days has been spent during 2011/12 on proactive fraud work in accordance with the counter fraud plan. Details of our counter fraud work are set out within Appendix B. We have re-drafted the council's Whistleblowing Policy and this has been publicised to staff via the intranet. The communications team will also ensure that the policy is also communicated to staff without access to the intranet. Similarly, we have aligned the schools' Whistleblowing Policy with the council's and the schools' policy will also be re-issued early in 2012.
- 3.6. The Bribery Act came into force during 2011/12 and as a result we have worked with colleagues to update the council's Code of Conduct and the Statement of Ethical Standards for Employees to ensure that staff are aware of their requirements. We are currently performing an audit of street work inspections as this was identified as a key bribery risk area and we will be conducting more anti-bribery audits during 2012/13.
- 3.7. We continue to attend the Greater Manchester Fraud Group, which has representation from 13 local authorities, to enable us to share best practice and information, for example relating to potential frauds and bogus suppliers. We have recently joined a subgroup of this to share expertise in relation the use of Idea, a software package used to analyse data. This will enable us to examine and interrogate large data populations more efficiently and effectively. As part of our 2012/13 plan we are conducting a review of mileage claims submitted by all staff.
- 3.8. Where we have received information about potentially fraudulent suppliers we have notified the Accounts Payable team so that payments to these suppliers can be prevented. We also regularly raise awareness of fraud scams through the intranet and the Schools Portal.
- 3.9. We have continued to monitor the banking of school meal income and undertake visits to schools where banking is irregular. Based on our findings we are currently drafting an 'Audit Matters' newsletter which will be issued to all schools detailing this specific issue and other cash management issues.

National Fraud Initiative

- 3.10. As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative (NFI). This is a two-yearly exercise that matches electronic data held by public sector organisations to highlight potentially fraudulent activity. Nationally, the last exercise identified £139 million of errors and overpayments with the county council identifying 32 cases, totalling £92,000 of pension payments made to deceased pensioners, which is double the amount identified in 2008/09 (£46,000). The overpayments are being pursued by the Your Pensions Service and £9,475 has been retrieved to date.
-

- 3.11. The Audit Commission is considering introducing a number of real time NFI matches and we have expressed an interest in participating in a pilot review which would enable deceased pensioners to be identified much sooner.
- 3.12. An NFI match also identified that a community support worker with the council had been on sick leave whilst also working as a relief support worker for Cumbria County Council ('CCC'). As the individual left the council's employment during our investigation for a permanent job with CCC we are unable to take disciplinary action. Our findings have been reported to both the police and CCC. Depending on the action taken by the police we will commence proceedings to recover the payments made.
- 3.13. The 2010/11 data was submitted in October 2010 and the matches were released in January 2011. The number of matches for the 2010/11 exercise is 27,842 an increase of 17,162 from the 10,680 identified as part of the 2008/09 exercise. The data matches do not necessarily represent fraud but are indicators that need further investigation.
- 3.14. The matches cover a number of areas and some examples of the type and number of matches identified are provided below:

Area	Number of matches			Examples of data matches
	2008/09	2010/11	Variance	
Pension	1,849	2,256	407	Claimants that may have died or may have additional employment affecting their pension.
Payroll	1,091	4,169	3,078	Employees with additional employment, claimants of housing benefit, right to work within the UK.
Creditors	4,259	18,520	14,261	Potential duplicate payments, addresses, overpayment of VAT, employees with a business interest.
Insurance	298	164	(134)	Potential duplicate insurance claims.
Blue badges	2,618	2,212	(406)	Badge holder may have died and the badge used by someone else.
Residential care homes	565	521	(44)	Payments made to a care home for a resident who may have died.
Total	10,680	27,842	17,162	

- 3.15. The majority of the investigation work is normally performed by the relevant department within the council and was performed during the 2011/12 financial year. We provide advice and support; discussing with them the data match reports and what is required of them.
- 3.16. The 2010/11 exercise however, reported two new matches which matched employee's payroll details to creditor's details to identify those with the same bank account and/ or address. We investigated these matches due to the

sensitivity of these matches. There were 3,612 matches identified and we investigated the top 260 matches based on the value of the payments made. We identified that for some of the matches a declaration of business interests should have been made but the employee could not have had any influence over the purchasing decision. A separate review of business interests has been undertaken and recommendations made to improve the level of control.

- 3.17. We also worked closely with the Your Pension Service and undertook a number of home visits to confirm the identity of individuals claiming pensions.
 - 3.18. The data for the 2012/13 exercise is to be submitted in October 2012 and the matches released in January 2013. We will continue to work closely with the relevant teams within the council to ensure the matches are appropriately investigated in accordance with the Audit Commission's and internal protocols.
-

2011/12 Counter Fraud Plan

Planned activity	Detail
National Fraud Initiative (NFI)	The Audit Commission NFI is run every two years. In 2010/11 we submitted data which the Audit Commission then matched against other public authority databases. Matches were released in January 2011 and were investigated.
Counter Fraud Activity	
Schools Income	Cash paid by parents for pupils' school lunches is a key risk area. Throughout the year we monitor the income received to ensure schools are banking on a regular basis. We performed seven unannounced visits during the year. For six of these visits, we confirmed that no monies were missing but identified some general system weaknesses. Recommendations to improve the level of control were reported to each head teacher. Monies to the value of £3,800 were identified as missing at one of the visits and an investigation was undertaken.
Bribery Act	The implementation of the Bribery Act was delayed until 1 July 2011 to allow additional guidance to be provided. This was provided in March 2011 to allow organisations to put processes in place before the implementation of the Act. We have worked with colleagues to update the council's Code of Conduct and the Statement of Ethical Standards for Employees which sets out the council's position.
Cash handling establishments	We completed a number of unannounced visits at county council establishments handling cash, including libraries, museums and registrars' offices. We identified some specific issues and common themes across establishments that need to be addressed. The final report and recommendations to improve the level of control were agreed with management in December 2011.
Raising Fraud Awareness	During the year we have become aware of a number of fraud scams either through our work at the council or from our fraud networks. Where appropriate we have advised council staff of the risks; and has included messages being posted on the intranet, school portal and advising accounts payable to put a hold on certain suppliers.
Bribery Act – Street Works	<p>An allegation of bribery was received in July 2010, which alleged that a street work inspector was receiving bribes from a contractor to amend street work test results so a defect notification was not issued. The allegation was investigated but not substantiated. The system for defect notifications was documented and indicated that street work inspections were a bribery risk area. We are therefore performing an audit of this process to ensure the controls in place minimise the risk of bribery.</p> <p>The work to examine procedures in this area will continue in 2012/13</p>