

**Lancashire County Council**

**Counter fraud and special investigations annual  
report 2010/11**

**June 2011**

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**1. Introduction**

- 1.1. This report details the work performed by Lancashire County Council ('the council') to prevent and detect fraud and corruption. This report has been prepared for the Standards Committee; a similar report with additional data on each case has been reported to the county treasurer.
- 1.2. The National Fraud Authority estimates that the annual cost of fraud to the UK economy is £38 billion. The council has 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 county 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 the whistle blowing telephone line.
- 1.4. This report is based upon the work we have performed on special investigations and counter fraud during 2010/11. As investigations may cross over more than one financial year we have included investigations which commenced prior to 1 April 2010 but were still ongoing or completed by 31 March 2011. Due to the sensitive nature of our investigations we are unable to provide specific detail for cases which are ongoing.
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## **2. Impact on the control environment**

### **Overall opinion**

- 2.1. We have identified no single issue that has a material impact on the county 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. However, we have carried out a number of investigations at Lancashire County Commercial Group (LCCG) throughout the year. Our investigations have found significant issues regarding the use of sub-contractors, and other issues regarding the purchasing of clothing and equipment for both LCCG staff and the client in the Environment Directorate. The issues identified relate to one of the Highways area offices, and from our initial enquiries there is no evidence to suggest the issues are more widespread. We will be performing additional work during 2011/12 across the service as part of our internal audit plan.
- 2.3. 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.
- 2.4. We are required by the Audit Commission to report any individual frauds exceeding £10,000 but no individual fraud or theft has exceeded this level for 2010/11.

## **3. Fraud work undertaken**

- 3.1. The Audit Committee approved an annual audit plan for 2010/11 that included 300 days for special investigations and 200 days for proactive counter fraud work. The Internal Audit Service spent 503 days on special investigations and 107 days on counter fraud during 2010/11, a total of 610 days.

### **Special Investigations**

- 3.2. During 2010/11 we undertook a total of 27 special investigations, 14 of which were completed during the year. A number of investigations are on-going, some having commenced in previous financial years.
  - 3.3. Our investigations covered all directorates and a wide range of allegations were investigated, including: inappropriate expenditure; income not being banked and income shortfalls; inappropriate use of ICT equipment; misuse of service users' bank accounts; and theft of equipment.
  - 3.4. Of the 14 investigations that were concluded during 2010/11 a summary of the outcomes is provided below:
    - 3 employees were dismissed;
    - 1 employee resigned;
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- 1 employee was subject to police prosecution; and
  - 12 of the investigations identified control weaknesses and areas for improvement which were reported to management.
- 3.5. Two particular areas have absorbed a considerable amount of time during the year; action in relation to a headteacher, and whistle-blowing calls within Lancashire County Commercial Group.
- 3.6. In 2007/08 we investigated allegations relating to the financial mismanagement of the school by the headteacher, specifically tax avoidance and instances where the headteacher had allegedly personally benefited. Our investigation concluded that there had been financial mismanagement and the head teacher was dismissed in November 2008 for gross misconduct. In the past 12 months we have spent considerable time liaising with council colleagues and the council's barrister to prepare for and attend the General Teaching Council and Employment Tribunal hearings, which have been cancelled and rescheduled, necessitating repeated preparation.
- 3.7. We have also spent a considerable amount of time investigating and reporting various allegations made regarding one of the LCCG Highways area offices. During the year we have received three whistleblowing calls which, after our initial enquiries have all merited full investigation.
- 3.8. The findings all related to one of the Highways area offices and our investigation reports were issued in June 2010 and December 2010. Disciplinary investigations are still ongoing and LCCG are taking action against the issues raised. We have included further work in this area in our 2011/12 audit plan and will include the other area offices as part of this audit.

**Counter fraud arrangements**

- 3.9. A total of 103 days has been spent during 2010/11 on proactive fraud work. This time has been spent on undertaking the work within the counter fraud plan. We have not performed all the planned counter fraud reviews as resources were required for investigations and also some of the areas were not as relevant as when they were first planned. Full details of our counter fraud work are set out within Annex A.
- 3.10. We have continued to work on areas where the county council's counter fraud arrangements need to be strengthened to ensure it meets best practice and to minimise the county council's exposure to fraud, in particular, the county council's counter fraud statement and the whistleblowing policy. Both will be publicised throughout the county council using the intranet to raise fraud awareness.
- 3.11. The annual counter fraud plan for 2010/11 identified several key fraud risk areas. We have continued to monitor the banking of school meal income and undertake visits to schools where banking is irregular. At one school we found that the school business manager had not been banking the schools income on a regular basis and the supporting records were
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inadequate. As a result it was not possible to quantify exactly how much income should have been collected and banked. Using available information such as meals provided records concluded that there had not been a material loss of income. During our investigation the school business manager resigned and the headteacher has accepted all of our recommendations to improve the control environment, and we will be following this up during 2011/12. We have also undertaken a number of visits to establishments within Adult and Community Services directorate that handle cash: libraries, museums and registrars' offices. We have not found any significant losses of income although some of the controls were not operating effectively.

- 3.12. We have now joined 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.
- 3.13. Where we have received information about potentially fraudulent suppliers we have notified the Accounts Payable team so that payments to them can be prevented, and publicised them through the intranet and the Schools Portal.

**National Fraud Initiative**

- 3.14. 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 2008/09 NFI exercise enabled £215 million of fraud, errors and overpayments to be identified with the county council identifying £46,482 as reported in our 2009/10 counter fraud and special investigations report.
- 3.15. 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 27,558 an increase of 16,878 from the 10,680 identified as part of the 2008/09 exercise. This is mainly due to a new NFI report matching employee data to creditors data. Due to the sensitivity of this match, internal audit will be carrying out the investigations.
- 3.16. The matches cover a number of areas and some examples of the type and number of matches identified are provided below:

Area	No. of matches		Examples of data matches
	2008/09	2010/11	
Pension	1,849	1,972	Claimants that may have died or may have additional employment affecting their pension.
Payroll	1,091	4,169	Employees with additional employment, claimants of housing benefit, right to work within the UK.

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Area	No. of matches		Examples of data matches
	2008/09	2010/11	
Creditors	4,259	18,520	Possible duplicate payments, addresses, overpayment of VAT, employees with a business interest.
Insurance	298	164	Duplicate insurance claims.
Blue badges	2,618	2,212	Badge holder may have died and the badge used by someone else.
Residential care homes	565	521	Payments made to a care home for a resident who may have died.
<b>Total</b>	<b>10,680</b>	<b>27,558</b>	

- 3.17. 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.

The deadline for the matches to be investigated is January 2012. Throughout 2011/12 we will produce regular reports for the sections and the county treasurer.

**2011/12 Counter Fraud Plan**

- 3.18. For 2011/12 we have allocated 415 days for special investigations and counter fraud work. We are planning to spend 275 days on special investigations and a further 140 days on counter fraud work. Both of these figures are estimates and will depend on the number of cases we need to investigate. This is a reduction on the previous year's plan but reflects the reduced resources within the internal audit team. Our plans remain flexible and should additional resources be required then these could be released from our internal audit plans if appropriate.
- 3.19. Based on our understanding of the fraud risks facing the council we have developed a counter fraud plan for 2011/12 (See Annex B). In developing the plan we have taken into account the results of previous years investigations and the Audit Commission's Protecting the Public Purse report which includes common fraud risks for local authorities.
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2010/11 Counter Fraud Plan

Planned activity	Planned days	Actual days	Variance	Detail
National Fraud Initiative (NFI)	10	13	3	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 February 2011 and will form part of the 2011/12 counter fraud plan. Initial investigation work is normally performed by the relevant department within the council and we have met with each of them to discuss the data match reports and what is required of them.
Financial systems	50	11	(39)	Our audit work on the council's financial systems has incorporated counter fraud testing, and our results have been communicated with the relevant service managers to enable them to investigate.
Cash handling establishments	30	36	6	We undertook a number of unannounced visits at county council establishments handling cash, including libraries, museums and registrars' offices. Whilst we identified some specific issues we have identified some common themes across establishments that need to be addressed.
School income	20	21	1	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 two unannounced visits during the year. One school visit concluded that despite delays in banking the level of income expected had been banked. A number of recommendations were made to ensure weaknesses were addressed and that banking was undertaken on a weekly basis. The other school visit raised some concerns over the frequency of the banking of the school dinner money income and unusually high level of arrears. Records to support school lunch income were poor and several records were missing. During the audit a sum of cash was located in the school safe and this was thought to be unbanked school lunch income. The head teacher was not aware of the situation and during our audit the school business manager resigned. We have recalculated the expected levels of income and due to the poor records can only provide limited assurance that all income has been banked. A draft report has been issued to the head teacher. This work will continue throughout 2011/12.
Domiciliary services	25	0	(25)	This review was postponed until 2011/12.



Planned activity	Planned days	Actual days	Variance	Detail
Recruitment	20	0	(20)	This review was not undertaken because additional resources were required for investigations and because, following the council's budget savings plans, there is a freeze on recruitment and so this area is no longer seen as high risk.
Bribery Bill	20	4	(16)	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 are currently drafting a report on the actions required to be compliant with the Act. This work will continue to be undertaken as part of the 2011/12 counter fraud plan.
Raising fraud awareness	25	18	(7)	During 2010/11 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, this has included messages being posted on the intranet, school portal and advising accounts payable to put a hold on certain suppliers. This work will continue during 2011/12.
<b>Total days</b>	<b>200</b>	<b>103</b>	<b>(97)</b>	

2011/12 Counter Fraud Plan

Planned activity	Planned days	Outline Scope
National Fraud Initiative (NFI)	45	Matches for the 2010/11 NFI exercise were released in February 2011. Internal audit will support the local teams to investigate the data matches and where appropriate will investigate potential fraud. Internal audit are also investigating the matches between payroll and creditor data.
Cash handling	10	We will follow up the recommendations from our 2010/11 audit report and may also perform unannounced visits during the year.
School income	20	We will continue to monitor schools who are not banking dinner income on a regular basis and will perform unannounced visits where appropriate.
Domiciliary Services	15	We will review the adequacy and effectiveness of the controls regarding clients monies with particular regards to preventing fraud.
Bribery Act	20	We are currently reviewing the council's arrangements to ensure we are compliant with the act which comes into force on 1 July 2011.
Prevention of bribery – streetworks	15	We will review the adequacy and effectiveness of the controls in place to prevent bribery with regards to streetworks.
Management of counter fraud activity	15	This time is required to manage the counter fraud service, provide assistance and advice to management and report progress to the county treasurer and the Standards Committee.
<b>Total days</b>	<b>140</b>	