

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	19 February 2020
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics Six Monthly Update
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide a summary of the fraud statistics for the six month period to 30 September 2019 and a comparison to the same period in 2018.

2. Recommendation(s)

2.1. The Risk and Audit Scrutiny Committee is asked to approve the following recommendation(s):-

- (1) that the contents of this report are noted

3. Background

- 3.1. Collating and reporting fraud statistics and setting targets for improvement are considered best practice by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Local Authority Risk Managers (ALARM).
- 3.2. This report provides information on the number, types and outcomes of fraud investigations within South Lanarkshire Council for the six month period to 30 September 2019 together with a comparison to the statistics for the same period in 2018. It includes all frauds reported to Internal Audit, benefit frauds during this period investigated by the Department for Work and Pensions (DWP) and insurance losses resulting from a failure in internal controls or which have been investigated by Internal Audit.
- 3.3. Although the responsibility for housing benefit fraud investigations has transferred to the DWP Fraud and Error Service (FES), South Lanarkshire Council retains responsibility for the recovery of fraud overpayments. Therefore, housing benefit fraud statistics will continue to be included within the fraud statistics reported. As it will be necessary to rely on FES providing details on proven South Lanarkshire Council fraud cases, this may result in a delay in reporting.
- 3.4. The roll out of Universal Credit to all new benefits applicants from October 2017 will have an impact on the number of Housing Benefit claimants. It is, therefore, expected that the number of fraud cases will gradually decrease over future years. The Council will continue to pursue all Housing Benefit fraud overpayments, where appropriate.

- 3.5. The Benefits and Revenues Section continues to deliver an annual programme of rolling reviews on housing benefit claimants with reviews based on risk-profiling to establish the most likely areas of benefit fraud or overpayment. Information is also obtained from HMRC through Real Time Information (RTI) and DWP through the Housing Benefit Matching Service (HBMS). Where fraud is suspected, the case will be passed to FES for investigation and, if proven, the case returned to South Lanarkshire Council to pursue recovery. Irrespective of whether a fraud is proven or not, the Council takes steps immediately to recover any overpayment.

4. Results

- 4.1. All concerns reported to Internal Audit are risk assessed to ensure an appropriate response. Internal Audit also undertake joint investigations with Resources and the Fact-Finding team within Personnel Services depending on the nature of the fraud and the operational knowledge required.
- 4.2. Areas within the Council that inherently have a higher risk of fraud are considered for inclusion in the annual Audit Plan. There have been no specific patterns or trends identified in the period to 30 September 2019 in addition to those already known.
- 4.3. The Benefits and Revenues Section continues to supply details of the number and value of benefit frauds investigated by FES and the sanctions imposed for consolidation with the information held by Internal Audit. The Risk Management Section is responsible for collecting and recording all insurance losses. Information relevant to these statistics is provided to Internal Audit on a six monthly basis.
- 4.4. An analysis of the fraud caseload for the six month period to 30 September 2019 and the comparative period in 2018 is detailed in Table One.

Table One - Fraud Caseload

Status	Six Months to 30/09/19		Six Months to 30/09/18	
	Nos.	£000	Nos.	£000
Cases open as at 1 April	78	69	115	394
Concerns reported to 30 September	79	91	81	107
Caseload at 30 September	157	160	196	501
Cases closed in period (see Table Two)	32	36	81	153
Work in progress at 30 September	125	124	115	348

- 4.5. 75% of the cases reported in the period relate to benefit cases reported to and investigated by FES. A further 23% relate to thefts and break-ins. This split is broadly similar to the cases reported in the same period in 2018.
- 4.6. An analysis of closed cases in the year is detailed in Table Two:

Table Two - Analysis of Closed Cases

Source of fraud	Six Months to 30/09/19		Six Months to 30/09/18	
	Nos.	£000	Nos.	£000
Founded allegation (see Table Three)	23	31	57	142
Insufficient information	3	0	11	8
Unfounded allegations	6	5	13	3
Total	32	36	81	153

- 4.7. 72% of all cases, that were investigated, were founded. None of these cases involved a South Lanarkshire Council employee.
- 4.8. An analysis of founded allegations is detailed in Table Three:

Table Three – Analysis of Founded Allegations

Source of fraud	Six Months to 30/09/19		Six Months to 30/09/18	
	Nos.	£000	Nos.	£000
External	17	16	7	0
Internal	0	0	2	1
Benefits	6	15	48	141
Total	23	31	57	142

- 4.9. All founded cases relate to Benefit Fraud cases or fraud committed by a third party.
- 4.10. In respect of all founded cases, where appropriate, South Lanarkshire Council seeks to recover financial losses. The value of both previous and current year recoveries has marginally increased from £36,000 in the six month period to 30 September 2018 to £37,000 in the same period in 2019. All recoveries reported in this period relate to benefit fraud.
- 4.11. The cost of investigations concluded by Internal Audit has increased when compared to the same period in 2018 from £2,000 to £13,000. The cost of an investigation reflects the complexity of the investigation and, therefore, the time required to conclude. 90% of costs were incurred concluding work on procurement and responding to a Police enquiry.
- 4.12. Time budgets and target completion timescales for investigations are set at the start of each audit and will vary depending on the nature of the investigation. Performance measures for investigations undertaken by Internal Audit are monitored through local Performance Indicators and are reported to each meeting of this Committee.

5. Improvements

- 5.1. On the conclusion of all internal investigations, an assessment is made on whether an improvement action is necessary. If deemed necessary, an improvement plan will be issued containing recommended actions. These improvement plans are agreed with the relevant Heads of Service and the actions followed up by Internal Audit to ensure implementation and that gaps in controls have been addressed. Outcomes for concluded investigations are reported to this Committee as part of Internal Audit's annual assurance report.
- 5.2. There were three improvement plan issued by Internal Audit during the period under review with six separate actions to be taken. Follow up of all high priority actions resulting from fraud investigations will be included in future Audit Plans.

6. Employee Implications

- 6.1. South Lanarkshire Council has a zero tolerance approach to fraud. All employees have a role to play in reducing fraud within the Council and should understand the risk of fraud faced by the Council, that fraud is serious and that it diverts resources from the delivery of the Council's primary objectives. A Learn on Line (LOL) Fraud Awareness course is available to all employees with People Connect access.
- 6.2. Internal Audit will continue to coordinate future National Fraud Initiative (NFI) exercises and collate and report fraud statistics on a six monthly basis to this Committee.

7. Financial Implications

- 7.1. The investigation of fraud, participation in NFI exercises and the collection and reporting of fraud statistics will be carried out within existing resources.
- 7.2. A total of 111 days has been allocated within the 2019/2020 Internal Audit Plan for fraud risk work. This includes an allowance of contingency time to undertake fraud investigations, where required. An additional allowance of 40 days has been allocated for NFI.

8. Climate Change, Sustainability and Environmental Implications

- 8.1. There are no significant implications in terms of climate change, sustainability and environmental issues associated with this report.

9. Other Implications

- 9.1. Fraud risk is recognised as one of the top risks facing South Lanarkshire Council. This risk is significant as it can adversely affect the delivery of Council objectives and erode valuable resources. It is, therefore, important that the risk of fraud is soundly managed.
- 9.2. Fraud Risk Registers are now in place within all Resources and are reviewed and updated annually in line with standard Risk Management procedures.
- 9.3. The collection and reporting of fraud statistics should assist in the management of fraud by identifying patterns and trends of fraud and areas of high risk where preventative controls should be concentrated. However, in order to do this effectively, fraud statistics must be complete. This remains an area where practice could be improved and it is, therefore, important that all instances of potential and actual fraud are reported to Internal Audit. Further work can be undertaken by Internal Audit to promote fraud policies, if considered appropriate.
- 9.4. In order to ensure the Council is fully aware of, and prepared for, emerging fraud risks, Internal Audit periodically carries out self-assessment exercises against good practice guidance in fraud management. Internal Audit will continue to include an allowance within the Internal Audit Plan to undertake such assessments.

10 Equality Impact Assessment and Consultation Arrangements

- 10.1. There is no requirement to undertake an equality impact assessment.
- 10.2. Consultation was not necessary for this report.

Paul Manning
Executive Director Finance and Corporate Resources

28 January 2020

Link(s) to Council Values/Objectives/Ambitions

- ♦ Objective – Governance and Accountability

Previous References

- ◆ Fraud Statistics and NFI Six Monthly Update, 24 April 2019
- ◆ 2018 National Fraud Initiative Exercise, 18 September 2019
- ◆ Fraud Statistics Annual Report 2019, 18 September 2019

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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