

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	26 January 2012
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics and NFI 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 2011 and provide a comparison to the September 2010 statistics
- ◆ provide an update on the 2010/11 National Fraud Initiative (NFI) exercise for the six month period to 30 September 2011
- ◆ provide an update of the proposed changes to the Anti fraud and Corruption Strategy as a result of the introduction of the new Bribery Act

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the fraud and NFI statistics are noted
- (2) that the proposed changes to the Anti Fraud and Corruption Strategy 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). South Lanarkshire Council has reported fraud statistics and improvement targets since 2009.
- 3.2. This report provides information on the number, types and outcomes of fraud investigations and details improvement targets for the six month period to 30 September 2011 together with a comparison to the statistics for same period in 2010.
- 3.3. This report provides good comparative information and shows that fraud management is improving within the Council. There are areas within the Council that have a higher risk of fraud and these areas have been included in the fraud management plan within the annual Audit Plan 2012/13. However, there have been no material trends or patterns identified which would require further investigation by Internal Audit during this period.

4. Results

- 4.1. All concerns reported to Internal Audit are recorded on the corporate risk management system, Figtree. Each concern is risk assessed with high risk areas investigated by Internal Audit, medium risks investigated by Resources and low risks registered for monitoring of trends.

- 4.2. Housing Services, Benefits Investigation Team are responsible for recording all benefit fraud and they supply the number and value of benefit frauds, the amounts recovered and the sanctions imposed to Internal Audit for consolidation with other statistics.
- 4.3. The results for the six months 30 September 2010 and 30 September 2011 are detailed in Appendix One. However a summary of the results is detailed below;
- Approximately £203,000 of fraud was reported to Internal Audit during the six month period to 30 September 2011. The majority (91%) of this fraud related to benefit fraud.
 - There has been a decrease in the number of concerns reported to Internal Audit as at 30 September 2011 when compared to the same period in 2010. This may indicate that controls have improved within Resources, or that fraud is not being identified or reported within Resources. However, specific audits in areas of high risk to fraud are included in the Audit Plan annually and standard fraud indicator tests are included within all audit programmes. This testing has not highlighted any areas of concern therefore it is reasonable to assume that control within Resources is improving.
 - All concerns were investigated which supports a zero tolerance approach to fraud with 56% being completed within the eight week target. This is an increase of 18% from the same period last year.
 - Current year recoveries are down from the same period last year which is mainly due to the fact that, last year a piece of equipment was recovered which was valued at £50k.
 - There has been an improvement in the recovery rates for previous years which is due to the changes within Benefits Services and a more focussed approach to debt recovery.
 - The percentage of founded employee cases considered for a disciplinary hearing has reduced since last year. This is due to the person responsible for the fraud not being identified in seven cases.

5. Improvements

- 5.1. On the conclusion of all internal investigations, an assessment is made on whether 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 will be followed up by Internal Audit to ensure implementation in line with the audit planning strategy. Outcomes for concluded investigations are reported to the Risk and Audit Scrutiny Forum when they are finalised.
- 5.2. Seven internal investigations resulted in an improvement plan. The most common actions relate to;
- Introducing and/or updating procedures
 - Ensuring there is adequate security over both Council assets and access to Council Buildings, and
 - Introducing anti fraud measures within operational services

6. 2010/11 NFI Update

- 6.1. South Lanarkshire Council has taken part in National Fraud Initiatives since 2004. The focus of the exercises alternate annually between a limited exercise and a full exercise. The limited exercise compares the electoral register and council tax records to detect cases where single person discount (SPD) was being claimed and there was more than one person over 18 in the household. The full exercise involves a council wide comparison of benefits, payroll, creditors, licences, insurance claims,

blue badge holders and private nursing home residents. In addition to being matched to other benefits and payroll data, records were also matched to deceased persons, expired visas and refused asylum cases.

- 6.2. South Lanarkshire Council submitted requested extracts from Council systems in October 2010 for the 2010/11 Council Wide exercise and was provided with the list of matches requiring investigation on 25 January 2011.
- 6.3. This year, there are 14,361 matches which is higher than the previous exercises in 2009 of 13,757. The reason for this increase is that Audit Scotland carried out more matches which resulted in an additional eight reports containing a total of 1,466 matches.
- 6.4. Of the eight additional reports, one related to payroll records which were matched against creditors records and resulted in 671 matches, three reports were from additional analysis of creditor records and resulted in an additional 293 matches and four reports were from matches of Social Work records against Disclosure of Death Registration Information (DDRI) and resulted in an additional 502 matches. In previous NFI exercises, Social Work records were only matched to DWP deceased records which were not always up to date, it is, therefore, expected that matching to DDRI records will provide better results.
- 6.5. Internal Audit prepared a project plan at the start of the new exercise and reports progress against this plan through PIs. Services agreed an approach to the 2011 exercise which included the number of cases to be investigated and target completion date. Internal Audit reports the progress against these targets and recovery of overpayment errors and/or fraud on a quarterly basis.
- 6.6. As at 30 September 2011, 1,411 investigations had been completed with a total of 191 errors valued at £396,038 and six frauds valued at £10,896 being identified. All fraud related to Housing Benefits cases. Steps are taken, where appropriate, to recover fraud and error identified during the NFI exercise. From the £212,667 recoverable £12,671 had been recovered as at 30 September 2011. Full details of these results are at Appendix two.
- 6.7. There was a delay in starting the NFI exercise with Social Work Resources. This delay was mainly caused by the changes being made to the Blue Badge scheme. However, the investigations have now started and it is expected Social Work will complete their target number of investigations by 31 March 2012.

7. Employee Implications

- 7.1. 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 away from the Council's primary objectives.
- 7.2. All employees must have, and be seen to have, the highest standards of honesty, propriety and integrity in the exercise of their duties.
- 7.3. Internal Audit will continue to collate and report fraud statistics on a six monthly basis.

8. Financial Implications

- 8.1. The collection and reporting of fraud and NFI statistics will be carried out within existing resources. It is anticipated that through continuous collection and monitoring

of fraud statistics preventative measures can be introduced which will ensure scarce resources are protected and improvements made where necessary.

9. Other Implications

- 9.1. Fraud Risk is recognised as among 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. 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.
- 9.3. The Council reviewed and reissued its Anti fraud and Corruption Strategy in June 2010. However a new Bribery Act was introduced in July 2011 and it has, therefore, been necessary to make some minor changes to the existing strategy. The main changes relate to including a specific reference to bribery when defining fraud. A list of the amendments is detailed in Appendix 3.
- 9.4 There are no significant implications for sustainability in terms of the information contained in this report.

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 however Internal Audit liaises with the NFI working group in the analysis and presentation of NFI information.

Paul Manning

Executive Director (Finance and Corporate Resources)

6 January 2011

Link(s) to Council Objectives/Improvement Themes/Values

- ◆ Value: Accountable Effective and Efficient
- ◆ Improvement Theme: Governance and Accountability

Previous References

Fraud Statistics 10/11 Update, 14 July 2011

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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Fraud Statistics

Status	Six Months to 30/09/10		Six Months to 30/09/11	
	£000's	Nos.	£000's	Nos.
Total concerns	455	105	242	99
less Work in progress	63	23	39	15
Closed investigations	392	82	203	84
Concluded by IA	62	7	0	2
Concluded by others	330	75	203	82
Total Concluded	392	82	203	84
<u>Investigative Outcomes</u>				
Insufficient information	30	10	1	10
Allegation correct	335	69	202	63
Unfounded allegations	27	3	0	11
Total	392	82	203	84
<u>Recoveries</u>				
Recoveries previous year	24		40	
Recoveries current year	64		10	
Total Recovery	88		50	

Fraud Classification	Six Months to 30/09/10		Six Months to 30/09/11	
	£000's	Nos.	£000's	Nos.
External	156	3	0	2
Internal	95	20	18	21
Benefits	141	59	185	61
Total	392	82	203	84

Performance Measures

	Target	As at 30/09/10	As at 30/09/11
Reporting Source			
Internal	80%	64%	68%
External	20%	36%	32%

Concluded Investigations Completed within 8 weeks of being reported	100%	38%	56%
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Sanctions % Founded Employee Cases considered for a disciplinary hearing	80%	78%	63%
No. Benefit Cases with Sanctions (Annual Target/Cumulative total)	80	45	37

Summary of NFI Investigations
2010/11 Exercise
As At 30/09/11

Service	Target	Target Completed		Target In Progress		Outcome Error		Outcome Fraud	
		No.	%	No.	%	No	£	No	£
Benefits	1,023	662	65%	163	16%	175	385,299	6	10,896
Payroll	418	410	98%	5	1%	13	0	0	0
Rents	90	94	104%	0	0%	1	520	0	0
Right to Buy	22	22	100%	0	0%	0	0	0	0
Blue badges	493	0	0%	0	0%	0	0	0	0
Private Residents in Care Homes	163	0	0%	0	0%	0	0	0	0
Insurance Claimants	63	63	100%	0	0%	0	0	0	0
Creditors	101	101	100%	0	0%	2	10,219	0	0
Concessionary travel	261	59	23%	0	0%	0	0	0	0
Residents parking	24	0	0%	24	100%	0	0	0	0
Total	2,658	1,411	53.1%	192	7.2%	191	396,038	6	10,896

NFI Recovery
As At 30 September 2011

£	
Identified fraud	10,896
Over payment Identified	396,038
Total fraud and overpayment identified	406,934
Fraud Recoverable	10,896
Other Recoverable	201,771
Total recoverable (from NFI website)	212,667
Current Year Recovered	
Fraud	935
Other	11,736
Total	12,671

Proposed Changes to Anti fraud and Corruption Strategy

Para ref	Proposed Additions
3.2	The Council is committed to ensuring that its business is conducted in an open and transparent manner and will take all appropriate steps to minimise the risk of bribery and will adhere to best practice in bribery prevention.
3.2	The Council will not tolerate fraud, bribery , impropriety or dishonesty and will investigate all instances of suspected fraud, bribery, impropriety, or dishonesty conduct by employees or external contractors or clients.
3.2	The Council will take action against any employee offering or accepting a bribe (or attempting to offer or accept a bribe) from other employees, Council clients, partners or contractors. This action may include dismissal and/or criminal prosecution.
3.2	The Council will take action against external organisations bribing (or attempting to bribe) the Council. This action may include criminal prosecution.
4.1	Concerns which should be reported include: <ul style="list-style-type: none"> • Abuse of funds • misconduct • a criminal offence • a failure to comply with a legal obligation • bribery
5.3	Employees should also understand their responsibility in respect of the management of fraud, bribery and corruption.