

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	18 September 2018
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics Annual Report 2018
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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 year to 31 March 2018 and a comparison to the statistics to 31 March 2017.

2. Recommendation(s)

2.1. The 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 together with a comparison to the statistics for the same period in 2017. It includes all frauds reported to Internal Audit during the year to 31 March 2018, South Lanarkshire Council 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 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 to provide 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 in October 2017 will have an impact on the number of Housing Benefit claimants. The roll out has, however, not had a significant impact on the fraud statistics for the period to 31 March 2018 but it is expected that the number of benefit fraud cases will decrease in future periods. The Council will continue to pursue all Housing Benefit fraud overpayments, where appropriate.

- 3.5. The Internal Audit Section completed a procedural check on Universal Credit in 2016/17 and was satisfied that procedures were in place to timeously identify and stop Housing Benefit payments to claimants who have moved to Universal Credit and avoid overpayments. Further audit work in this area to obtain assurance that the procedures are working as intended has been included in the 2018/19 Internal Audit Plan.
- 3.6. The Benefits and Revenues Section continues to deliver an annual programme of rolling reviews on benefit system claimants with reviews based on risk-profiling to target the most likely areas of benefit fraud or overpayment. Information is also obtained from Her Majesty's Revenue and Customs (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 the FES for investigation and, if proven, the case returned to South Lanarkshire Council to pursue recovery.

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. Joint investigations may also be carried out by Resources and Internal Audit depending on the nature of the fraud and the operational knowledge required.
- 4.2. The Benefits and Revenues Section continues to supply details of the number and value of benefit frauds investigated by FES, the amounts recovered by the Council 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.
- 4.3. An analysis of the fraud caseload for the years to 31 March 2017 and 2018 respectively are detailed in Table One.

Table One - Fraud Caseload

Status	Year to 31/03/17		Year to 31/03/18	
	Nos.	£000	Nos.	£000
Cases open as at 1 April	78	465	118	368
Concerns reported during year	102	280	123	333
Caseload in 2017/2018	180	745	241	701
Cases closed during year (see Table Two)	(62)	(377)	(126)	(307)
Work in progress at year end	118	368	115	394

- 4.4. The increase in the in-year caseload can be attributed to the number of benefits cases carried forward from previous years. This is mainly as a result of delays in concluding cases before these are passed back to South Lanarkshire Council for recovery. The decrease in value can be mainly attributed to one high value Internal Audit investigation which was included in the 2017 statistics.
- 4.5. More cases were closed in 2017/18, reflecting improving performance in the closing of Housing Benefit investigations.

- 4.6. There were 99 benefit fraud cases reported in 2017/18. Of these cases, 57 (58%) resulted from RTI, HBMS or National Fraud Investigation (NFI) reviews. The remaining 42 cases (42%) resulted from FES investigations.
- 4.7. In addition, a further 144 investigations are currently ongoing within FES. This is a decrease of 254 cases from the same period last year. These ongoing cases are not included in the fraud statistics as they have not been confirmed as fraud. If confirmed, they will be included in future reports.
- 4.8. An analysis of closed cases in the year is detailed in Table Two:

Table Two - Analysis of Closed Cases

Source of fraud	Year to 31/03/17		Year to 31/03/18	
	Nos.	£000	Nos.	£000
Founded allegation (see Table Three)	35	303	104	296
Insufficient information	9	0	14	11
Unfounded allegations	18	74	8	0
Total	62	377	126	307

- 4.9. 82% of all cases that were investigated were founded and, for all founded investigations involving an employee, disciplinary action was considered.
- 4.10. An analysis of founded allegations is detailed in Table Three:

Table Three – Analysis of Founded Allegations

Source of fraud	Year to 31/03/17		Year to 31/03/18	
	Nos.	£000	Nos.	£000
External	5	19	15	26
Internal	4	201	1	0
Benefits	26	83	88	270
Total	35	303	104	296

- 4.11. 99% of all founded cases relate to Benefit Fraud cases or fraud committed by a third party.
- 4.12. 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 decreased from £66,000 in 2016/17 to £46,000 in 2017/18. All recoveries reported in this period relate to benefit fraud. Previous year recovery rates will decrease over time as it is inherently more difficult to recover older debts.
- 4.13. The cost of investigations concluded by Internal Audit has increased from the same period last year. The cost of the investigation reflects the complexity of the investigations and the time required to conclude the investigation. The majority of costs £33,000 were incurred investigating founded cases and the investigations resulted in implementation of improvement plans in four areas and the disciplinary process being invoked for nine employees.
- 4.14. 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 reported and monitored together with routine audit performance measures through local Performance Indicators and to the Risk and Audit Scrutiny Committee.

5. Improvements

- 5.1. On the conclusion of all internal investigations, an assessment is made as to 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 followed up by Internal Audit to ensure implementation and that gaps in controls have been addressed. Outcomes for concluded investigations will be reported to the Risk and Audit Scrutiny Committee, when finalised, as part of routine updates. There were four action plans resulting from fraud investigations issued and agreed during the year to 31 March 2018. There were 74 actions included within these plans. All high priority actions will be followed up in 2018/19 in line with Internal Audit procedures.

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 away from the Council's primary objectives.
- 6.2. A Learn on Line (LOL) Fraud Awareness course is available to all employees with People Connect access. It is recommended that all employees complete this course to further strengthen their fraud awareness. Further work is currently being undertaken by Internal Audit, in consultation with Personnel Services, to review the content and format of the LOL course to ensure it is still relevant and is accessible to all employees. In addition, Internal Audit is currently in discussions with Police Scotland to explore the potential for the provision of targeted anti-fraud training to Council employees.
- 6.3. The Committee will be advised of all updates to the LOL course and external training undertaken. Statistics in relation to employees completing the anti-fraud awareness courses will be provided in future update reports.

7. Financial Implications

- 7.1. The investigation of fraud and the collection and reporting of fraud statistics will be carried out within existing resources. Time will continue to be allocated within the annual Internal Audit Plan to review fraud risk areas and will include contingency time to undertake fraud investigations.
- 7.2. A total of 236 days was allocated within the 2017/18 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 was allocated to the NFI exercise.

8. Other Implications

- 8.1. 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.
- 8.2. Fraud Risk Registers are now in place within all Resources and are reviewed and updated annually in line with standard Risk Management Procedures.
- 8.3. 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 will be undertaken by Internal Audit to promote the Council's Fraud Response Plan which should help to ensure all known fraud concerns are reported and that employees are made aware of the systems in place within the Council for reporting suspected or actual fraud. To support this process, a protocol has been prepared and agreed with the new fact finding team within Personnel Services.

- 8.4. In order to ensure the Council is fully aware of, and prepared for, emerging fraud risks, Internal Audit carried out self-assessment against good practice guidance in fraud management. Internal Audit will continue to include an allowance within the Internal Audit plan to undertake assessments against good practice in fraud management, where required.
- 8.5. Areas within the Council that inherently have a higher risk of fraud are considered for inclusion in the Corporate Fraud Plan within the annual Audit Plan. One area of specific concern identified was in relation to contract award, specifically in relation to contracts awarded through Frameworks. This area has been included in the 2018/19 Internal Audit Plan.
- 8.6. There are no sustainability issues in terms of the information contained in this report.

9. Equality Impact Assessment and Consultation Arrangements

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

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Executive Director (Finance and Corporate Resources)

31 August 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- Fraud Statistics Six Monthly Update to the Risk and Audit Scrutiny Forum, 21 March 2018
- Annual Fraud Report to Risk and Audit Scrutiny Forum, 20 September 2017

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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