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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	20 September 2016
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics Annual Report 2016
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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 2016 and a comparison to the statistics to 31 March 2015.

2. Recommendation(s)

2.1. The Risk and Audit Scrutiny Forum 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). South Lanarkshire Council has collected and reported fraud statistics and improvement targets to the Forum since 2012.

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 2015. It includes all frauds reported to Internal Audit during the year to 31 March 2016, South Lanarkshire Council benefit frauds during this period investigated by the DWP and insurance losses resulting from a failure in internal controls or which have been investigated by Internal Audit.

3.3. The Benefits Investigation Team transferred to the DWP Fraud and Error Service (FES) on 1 November 2014. As South Lanarkshire Council retains responsibility for recovery of fraud overpayment housing benefit fraud, statistics will continue to be included within the fraud statistics reported. However, as it will be necessary to rely on FES to provide details on proven South Lanarkshire Council fraud cases, this may result in delays in reporting.

3.4. The Service Level Agreement (SLA) between the Council and FES was reviewed in 2014/2015 to ensure that effective joint working arrangements were established in relation to the sharing of benefit fraud information. This review concluded that there

were effective arrangements in place and further work was included within the 2015/2016 Internal Audit Plan to test the operation of the SLA in practice. This review concluded that there are controls in place to ensure South Lanarkshire Council are fulfilling the conditions of the SLA. However it was established that conditions stated within the SLA in relation to FES responsibilities are not always being complied with. An Action Plan was agreed with the Service which should help to address the issues identified during this audit work. The Service has confirmed that two of the three actions included in the improvement plan have been completed by their due date. The third action is due to be completed by 30 November 2016. The completion of the action plan will be followed up in line with standard Internal Audit procedures.

- 3.5. The Revenues and Benefit Section continues to deliver an annual programme of rolling reviews on benefit system 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 is passed to FES for investigation, and, if proven, the case returned to South Lanarkshire Council to pursue recovery.
- 3.6. In addition, as detailed in the Fraud Statistics Annual Report presented to the Forum on 22 September 2015, there has been a commitment by the UK Government to invest in local authorities' capacity to tackle non-welfare fraud. To do this, a package of support was put in place that offered funding for local authorities to develop a strategy to tackle corporate fraud with a view to this activity becoming 'self-funding' as a more pro-active approach to tackle fraud was developed.
- 3.7. The 2015/2016 annual Audit Plan, therefore, included a separate and discrete programme of audits to respond to this growing focus on corporate fraud. Progress with this programme is detailed within section five of this report.

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 to Internal Audit for consolidation with the information held by Internal Audit.
- 4.3. 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. The results for the year to 31 March 2015 and 31 March 2016 are detailed in Appendix One. However a summary of the results is detailed below:-

- 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. There have been no specific patterns or trends identified in the year to 31 March 2016 in addition to those already considered to be of high risk.
- there were 126 investigations valued at £489,000 either reported in the period or carried forward from 2014/2015. This is an increase in both number and value from the previous year. The increase is mainly from Benefit Fraud cases resulting from RTI reviews. However there was also one high value fraud reported to Internal Audit during the year which has contributed to the increase in the value of reported fraud. This investigation was outstanding as at 31 March 2016.
- there were 96 benefit fraud cases reported in 2015/2016. Of these cases, 84 (88%) resulted from RTI reviews. The remaining 12 cases (12%) resulted from FES investigations. In addition to the 12 confirmed fraud cases, a further 241 cases are currently being investigated by FES. These cases are not included in the fraud statistics at Appendix One as they have not been confirmed as fraud. If confirmed, they will be included in future reports. As this is the first full year of the operation of FES, it is difficult to make a direct comparison with the 2014/2015 statistics. However we will continue to monitor the trend and report in 2016/2017.
- all concerns reported to Internal Audit during the period were investigated demonstrating the Council's zero tolerance to fraud.
- of the 126 cases, 48 (38%) valued at £88,000 were closed within the period. This represents a decrease when compared to the previous year's results. The majority of work in progress (90%) relates to Benefit cases passed to FES for further investigation. As detailed in paragraph 3.4 above, we identified some issues during the 2015/2016 audit of the operation of the SLA agreement between the Council and DWP, in particular, DWP compliance with their responsibilities. These issues should be addressed through implementation of the agreed improvement plan.
- all concerns reported in the year were investigated demonstrating a zero tolerance to fraud within the Council.
- of the number of cases investigated, 88% were founded.
- all founded investigations involving an employee were considered for a disciplinary hearing, where possible.
- the majority of the number of founded cases, 74%, relate to Benefit Fraud cases or fraud committed by a third party. This is consistent with previous years' results.
- the value of both previous and current year recoveries has decreased when compared to the previous year's results by 32% from £118,000 to £80,000, and by 64%, from £11,000 to £4,000 respectively. All recoveries reported in this period relate to benefit fraud. It is expected that previous year recovery rates will decrease over time as it is inherently more difficult to recover older debts. The current year's collection represents 9% of founded benefit fraud which is broadly in line with the same period in 2015.
- the cost of investigations concluded by Internal Audit has decreased 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. All costs were incurred investigating founded cases which resulted in implementation of

improvement plans in five areas and disciplinary action being taken against nine employees.

- 4.5. 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.

5. Corporate Fraud Plan

- 5.1. A total of 100 days was allocated within the 2015/2016 Internal Audit Plan for corporate fraud work. The programme of audits was based on emerging and known areas of fraud risk. The target completion date for this work was 30 April 2016. Progress to date is detailed in Table One below.

Table One

Corporate Fraud Plan	Target	No	Progress
Total Audits in 2015/2016 Plan	5	5	
Audits concluded in period		4	80%

- 5.2. The outstanding audit relates to a review Council Tax Single Person Discount. This assignment was deferred in 2015/2016 and an allocation of time to complete the work has been included in the 2016/2017 Internal Audit Plan.
- 5.3. The outcomes from this programme of work are included in the Internal Audit Activity Reports to the Forum when concluded.

6. Improvements

- 6.1. 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 followed up by Internal Audit to ensure implementation and that gaps in controls have been addressed. Outcomes for concluded investigations are reported to the Risk and Audit Scrutiny Forum when they are finalised as part of routine updates. There were five action plans issued and agreed during the year to 31 March 2016. The high priority action included within these plans will be followed up in line with Internal Audit procedures.
- 6.2. A total of ten high priority actions, resulting from two audit investigations were followed up in 2015/2016. Of these ten actions, seven had been fully implemented, two had been partially implemented and one was outstanding. The partially completed actions related to reviewing and updating procedures and undertaking monthly mileage checks. The outstanding action related to Team Leader review of referral spreadsheets. Executive Directors and relevant Heads of Service were advised of the results of follow up audits and further action, if required.

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. A Learn on Line 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. Statistics in relation to employees completing the LOL course will be provided in future update reports.
- 7.3. Internal Audit will continue to collate and report fraud statistics to the Risk and Audit Scrutiny Forum on a six monthly basis.

8. Financial Implications

- 8.1. The investigation of fraud and the collection and reporting of fraud statistics will be carried out within existing resources.
- 8.2. A total of 100 days has been allocated within the 2016/2017 Internal Audit Plan for corporate fraud work and a further 447 days have been allocated within the plan for routine audit review of fraud risk areas. This includes an allowance of contingency time to undertake fraud investigations.

9. Other Implications

- 9.1. Fraud Risk is recognised as the fifth top risk 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 for all Resources. Internal Audit included an action within the Fraud Risk Evaluation Diagnostic 2 (FRED2) Action Plan to review existing registers and ensure that these are complete and up to date. The review is complete and it is intended that the registers will be monitored and updated annually in line with standard Risk Management Procedures. Updates to the registers will be included in the Fraud Statistics report, where required.
- 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 will be undertaken by Internal Audit during 2016/2017 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 draft protocol will be agreed with the new fact-finding team within Personnel Services.
- 9.4. Internal Audit undertook a self assessment against good practice guidance in fraud management in 2014/2015. The latest CIPFA guidance, FRED2, was used to carry out this assessment. Completion of the action plan will contribute to improvements in the management of fraud risk within the Council. A copy of the FRED 2 Action Plan is included at Appendix Three together with an update on the progress against each action.

- 9.5. In addition to ensuring compliance with good practice in fraud management, SOLACE recommends that all Scottish Local Authorities carry out a high level assessment of their readiness in relation to the risks posed by Serious and Organised Crime. In February 2015, the Deter Sub-Group of the Serious and Organised Crime Taskforce, developed "A Local Authority readiness – Serious and Organised Crime and Corruption Risk Checklist/Survey" to assist with this. Internal Audit included an allocation of time within the 2015/2016 Internal Audit Plan to complete this Checklist/Survey.
- 9.6. The objective of this work was to complete the Checklist/Survey to assess the arrangements in place to protect the Council against Serious and Organised Crime, to highlight areas for improvement and areas of good practice which may be shared with other local authorities, where required. The Assessment was completed by Internal Audit in consultation with Resource representatives
- 9.7. Overall, the assessment concluded that there is an awareness of the risks posed by Serious and Organised Crime amongst key members of staff within the Council and that there are some procedures in place to guard against the threat of Serious and Organised Crime. However, awareness of Serious and Organised Crime could be strengthened throughout the Council and controls within operational procedures could be improved to further mitigate against the risk of Serious and Organised Crime. An improvement plan was agreed with the Council's Single Point of Contact for Serious and Organised Crime which should ensure that awareness is increased and controls improved. The completion of the improvement plan will be followed up in 2016/2017 in line with standard Internal Audit procedures.
- 9.8. Internal Audit will continue to include an allowance within the Internal Audit plan to undertake assessments against good practice in fraud management where required.
- 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)

24 August 2016

Link(s) to Council Values/Objectives

- ◆ Objective – Governance and Accountability

Previous References

- ◆ Fraud Statistics Six Monthly Update to the RASF, 19 January 2016
- ◆ 2015 Annual Fraud Report to RASF, 22 September 2015

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	Year to 31/03/15		Year to 31/03/16	
	Nos.	£000	Nos.	£000
Concerns reported in period by Source				
Internal	33	111	11	137
External	15	22	108	351
Total Reported in period	48	133	119	488
Previous years Concerns C/F	9	7	7	1
Total open concerns in period	57	140	126	489
less Work in progress	7	1	78	401
Closed investigations	50	139	48	88
Concluded by IA (Inc joint)	9	45	8	1
Concluded by others	41	94	40	87
Total Concluded	50	139	48	88
<u>Investigative Outcomes</u>				
Allegation correct	48	139	42	70
Insufficient information	1	0	1	0
Unfounded allegations	1	0	5	18
Total	50	139	48	88
<u>Fraud Classification (founded)</u>				
External	8	23	9	20
Internal	13	8	11	3
Benefits (Including NFI)	27	108	22	47
Total	48	139	42	70
<u>Recoveries</u>				
Recoveries previous year		118		80
Recoveries current year		11		4
Total Recovery		129		84

<u>Internal Audit Net Cost of Concluded Investigations</u>	£000	% of total Cost	£000	% of total Cost
Allegation correct	19	95%	3	100%
Insufficient information	1	5%	0	0%
Total	20		3	

Performance Measures

	Target	As at 31/03/15	As at 31/03/16
Sanctions			
% Founded Employee Cases where employee identified considered for a disciplinary hearing	100%	100% (13)	100% (9)
No. Benefit Cases with Sanctions (Annual Target/Cumulative total)	N/A (Note 1)	33	22

Note 1: Benefit Fraud Sanctions decided by FES

Improvements			
Number of investigation Follow Up Audits completed		3	2
Number of High Priority Actions in original investigations		14	10
Number of Actions completed by due date	100%	85%	70% (7 actions Note 2)

Note 2: Two actions had been partially implemented and one action was outstanding

Fraud Management			
Routine Anti Fraud reviews concluded in period		1	2
Reviews resulting in positive assurance (good or adequate) Note 3	100%	100%	100%

*Note 3: **Good** assurance is obtained where expected controls are in place and neither non-compliance, weaknesses nor adverse governance impact has been identified. There are no high risk recommendations made. **Adequate** assurance is obtained where expected controls are in place but some non-compliance, weaknesses, areas for improvement or governance impacts of a minor or moderate nature have been identified.*

FRED 2
2015/2016 Action Plan

Appendix 3

	Assessment Area		Target Completion Date	Responsibility	Progress
	Fraud risk registration				
Question 1.3	Are registers regularly reviewed and kept up to date?	Partial			
Question 1.5	Is there a fraud logbook for each 'vulnerable' system or process?	Partial			
1	Implementation of the review of the Fraud risk registers on an annual basis (Review to start in September to tie in with Audit Planning timescales)		30/11/15	Internal Audit (Audit Adviser and Audit Assistant)	Complete – first review undertaken in September 2015
	Control systems				
Question 3.5	Are delegation limits reviewed frequently and are there checks for compliance?	Partial			
2	Implement a more frequent time scale for review of delegation/authorisation limits (annual review)		31/03/16	Responsibility to be allocated	Outstanding - to be considered as part of the Finance Service Review
	External Information				
Question 4.1	Has information about possible fraud been received, routed to the correct person/section, logged and acted upon?	Partial			
3	Publicise the Fraud response Plan and Whistleblowing Procedures internally throughout the Council.		30/09/15	Internal Audit and Personnel Managers	Deferred - to be covered as part of PSIAS inspection in 2016 due to start September 2016.
Question 4.4	Does the organisation participate in fraud benchmarking?	Partial			

4	Follow up benefit of participating in CIPFA Benchmarking Club.		30/09/15	Internal Audit	Complete - Little benefit in participating in the CIPFA Benchmarking Club due to the lack of Scottish Local Authority Participants. However the CIPFA Publication "Benchmarking Analysis: Internal Audit in Local Government" was purchased for use within Internal Audit
	Cummulative Knowledge				
Question 5.2	Do records exist of action taken to combat fraud and how successful it was?	Partial			
5	Fraud stats report to be updated to reflect the results of the "corporate fraud" audits and highlight areas where frauds (including values) have been prevented where possible		From six monthly report as at 30/09/2015	Internal Audit (Audit Adviser)	Complete - summary included in fraud stats, however separate report will be prepared for CMT detailing corporate fraud and NFI results.
Question 5.4	Is there regular discussion on fraud risks at audit committee / senior executive level with outcomes? (E.g. the effectiveness of controls)	Partial			
6	Consider including Fraud Risk register updates within the fraud stats report		From year end report as at 31/03/2016	Internal Audit (Audit Adviser)	Complete – no amendments to registers (6 monthly review)

	Emerging fraud risks				
7	Discuss with Risk Management the possibility of including Fraud Risk as a specific area for discussion at risk workshops and for inclusion in all risk Assessments as a separate consideration.		30/09/15	Internal Audit (Audit Adviser), Personnel Services (Personnel Adviser) and Risk management (Risk Manager)	Complete - fraud risk will be included in guidance for consideration at risk workshops and included within updated Risk Management Procedures as an area to be considered when reviewing risk registers. In addition the updated Service Review Procedures will include a requirement to carry out a risk assessment using the current Risk Management Matrix. Risk Management will prepare further guidance on carrying out risk assessment for inclusion within the Service review Procedures
	Cross cutting approaches				
Question 7.1	Have automatic vetting procedures for all new staff been introduced?	Partial			

8	Explore the possibility of obtaining basic disclosure checks for all existing employees whose role includes access to personal sensitive information (including financial information e.g. Bank account details).		30/09/15	Internal Audit	<p>Complete: Basic disclosure checks carried out for all employees who had an active email account and started employment within the previous five year. The code of conduct requires employees to advise of charges and/or convictions.</p> <p>If they are not already subject to a higher level check such as PVG, we also continue to do a basic disclosure check for new starts whose job would require them to have an active email account.</p>
Question 7.3	Is training undertaken to raise awareness of potential frauds?	Partial			
9	Consider the benefits of a member(s) of Internal Audit to hold a Counter fraud Accreditation. Particularly with the transfer of Benefit fraud section to FES		30/09/15	Audit and Compliance Manager	<p>Complete: Not considered necessary at this time. Internal Audit and Accountancy qualifications held by Internal Audit team and considered to be sufficient to</p>

					undertake investigations. Investigations of a specialist nature will be passed to Police Scotland or other body where relevant. This will be reviewed on an annual basis in line with the Audit Planning and PDR processes
Question 7.6	Are new systems and policies fraud proofed?	No			
	Covered under action 7.		30/09/15	Internal Audit and Risk management	Complete