



Report

Report to: **Risk and Audit Scrutiny Committee**
 Date of Meeting: **7 March 2023**
 Report by: **Executive Director (Finance and Corporate Resources)**

Subject: **Fraud Statistics Six Monthly Update 2022/2023**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide a summary of the fraud statistics for the six months to 30 September 2022 and a comparison to the same period in 2021

2. Recommendation(s)

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

- (1) that the contents of this report be 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 months to 30 September 2022 together with a comparison to the statistics for the same period in 2021. 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 from their own Housing Benefit claimants. Housing Benefit fraud data will, therefore, continue to be included within the fraud statistics reported as information is provided by FES.
- 3.4. Revenues and Benefits continue to deliver an annual programme of rolling reviews on Housing Benefit claimants 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.

- 3.5. Progress has been made with all types of fraud investigations during the six-month period to 30 September 2022 albeit resourcing pressures have required a level of re-prioritisation throughout the period.
- 3.6. In July 2022, Audit Scotland issued a Fraud and Irregularity report for 2021/2022. Section 5 of this report sets out the key messages and recommendations.

4. Results

- 4.1. All concerns reported to Internal Audit are risk assessed with high risk areas investigated by Internal Audit, medium risks investigated by Resources and low risks registered for monitoring of trends. Internal Audit may 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 have an inherently higher risk of fraud are considered for inclusion in the Annual Audit Plan. There have been no specific patterns or trends identified in 2022/2023 in addition to those already known.
- 4.3. An analysis of the fraud caseload for the six months to 30 September 2022 and the comparative period in 2021 is detailed in Table One.

Table One - Fraud Caseload

Status	Six Months to 30/09/22		Six Months to 30/09/21	
	Nos.	£000	Nos.	£000
Cases open as at 1 April	142	118	133	150
Concerns reported to 30 September	22	10	19	4
Caseload at 30 September	164	128	152	154
Cases closed in period (see Table Two)	9	5	16	6
Work in progress at 30 September	155	123	136	148

- 4.4. Although cases reported in the period remain relatively low, a pattern of these coming primarily from suspected benefit fraud has started to emerge again.
- 4.5. 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 30/09/22		Six Months to 30/09/21	
	Nos.	£000	Nos.	£000
Founded allegation (see Table Three)	3	2	10	5
Insufficient information	4	0	1	0
Unfounded allegations	1	1	5	1
Time Delay	1	2	0	0
Total	9	5	16	6

- 4.6. 33% of cases closed in the period were founded. None of these cases involved a South Lanarkshire Council employee.
- 4.7. An analysis of founded allegations is detailed in Table Three:

Table Three – Analysis of Founded Allegations

Source of fraud	Six Months to 30/09/22		Six Months to 30/09/21	
	Nos.	£000	Nos.	£000
External	3	2	10	5
Internal	0	0	0	0
Benefits	0	0	0	0
Total	3	2	10	5

- 4.8. All of the founded cases relate to fraud committed by a third party.
- 4.9. Minimal costs have been incurred by Internal Audit in the period to 30 September 2022 with the majority of time to complete investigations being committed in the second half of 2022/2023. 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. These time-scales can be extended to reflect other Service priorities although every effort is made to complete work within a reasonable time period.

5. Audit Scotland report: Fraud and Irregularity 2021/2022

- 5.1. In July 2022, Audit Scotland published their Fraud and Irregularity report for 2021/2022. The report set out a number of key messages:-

- ♦ the COVID-19 pandemic had introduced many challenges for the Scottish public sector
- ♦ auditors had found that most bodies had responded well by introducing new systems, procedures and controls
- ♦ although the COVID-19 pandemic had led to different types of fraud developing, public bodies had taken steps to reduce fraud and error in schemes administered on behalf of the Scottish Government

- 5.2. These key messages led Audit Scotland to make the following recommendations within the report:-

- ♦ public bodies should ensure effective counter-fraud arrangements are in place and should understand current and emerging counter-fraud risks
- ♦ there should be a regular review of counter-fraud strategies and plans and a regular assessment and review of internal controls and governance arrangements to ensure they remain effective
- ♦ there should be consideration as to whether the risks and weaknesses in controls identified in the report exist within the organisation and, if so, appropriate corrective action should be taken
- ♦ there should be a review of the recommendations that were commissioned by the Scottish Environment Protection Agency (SEPA) following a ransomware attack on its systems

- 5.3. On review, no specific, further action requires to be taken in respect of any of the recommendations with counter-fraud arrangements in place that are regularly reviewed and reflect emerging fraud risks. The Council's fraud strategy has been reviewed and will be presented to the next meeting of the Risk and Audit Scrutiny Committee (RASC). An Audit Plan is delivered annually to test internal control and governance arrangements. Recommendations arising from a review of the ransomware attack on SEPA have been considered and some actions identified to mitigate similar risks that exist within South Lanarkshire Council. Internal Audit will

track implementation of these actions and provide an update within the 2022/2023 Annual Assurance report.

6. Improvements

- 6.1. On the conclusion of all internal investigations, an assessment is made on whether any improvement actions are necessary. If required, 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 RASC as part of Internal Audit's annual assurance report.

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 from the delivery of the Council's primary objectives. Periodic communications seek to communicate these messages and raise awareness amongst employees.

8. Financial Implications

- 8.1. The investigation of fraud, participation in NFI exercises and the collection and reporting of fraud statistics will be carried out within existing resources.
- 8.2. Fraud related assignments are split across three main areas in the 2022/2023 Audit Plan:

Audit assignment	Outline Scope
NFI	Coordinate data uploads for new NFI exercise in 2022/2023. Develop and communicate plan for investigation of matches in 2023/2024.
Anti-fraud checks	Rolling programme of anti-fraud checks – including procurement, petty cash, COVID-19 grants and purchase cards. Re-brief Conflict of Interest policy and develop annual process for briefing within Resources. Review and update Fraud Policies and present to Committee for approval.
Investigative contingency	Undertake investigations as required.

- 8.3. All Phase One NFI data has been uploaded and matches are anticipated to be returned early 2023. A Plan will then be developed to investigate matches. Anti-fraud checks are in progress and will continue through to the end of the financial year as will the investigative work that is currently work in progress.

9. Climate Change, Sustainability and Environmental Implications

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

10. Other Implications

- 10.1. 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. Fraud Risk Registers are in place within all Resources and are reviewed and updated in line with standard Risk Management procedures.

- 10.2. In order to ensure the Council is fully aware of and prepared for emerging fraud risks, Internal Audit periodically carry out self-assessment exercises against good practice guidance in fraud management.
- 10.3. The Council's Serious and Organised Crime (SOC) working group have developed an action plan to address the impact of COVID-19 on SOC and the challenges that this has brought to the Council in the short, medium and long term. The Group progress delivery of the various actions, revising if any new or emerging threats are identified through the pan Lanarkshire Multi Agency SOC Group. Updates on progress are presented to RASC on a periodic basis.
- 10.4. The collection and reporting of fraud statistics assists 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. Internal Audit will continue to highlight areas where practice could be improved to ensure that all instances of potential and actual fraud are reported to Internal Audit.
- 10.5. There are no sustainability issues in terms of the information contained in this report.

11. Equality Impact Assessment and Consultation Arrangements

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

Paul Manning

Executive Director (Finance and Corporate Resources)

16 February 2023

Link(s) to Council Values/Priorities/Outcomes

- ◆ Accountable, effective, efficient and transparent

Previous References

- ◆ Fraud Statistics 2021/2022 Annual Report, 27 September 2022

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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