

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	7 March 2017
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 2016 and a comparison to the six monthly statistics to 30 September 2015.
- ♦ provide an update on progress against the Corporate Fraud Plan.

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 in the six month period to 30 September 2016, benefit frauds during this period investigated by the DWP Fraud and Error Service (FES) 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. However, South Lanarkshire Council retains responsibility for recovery of fraud overpayment 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. This has been evidenced by the increase in the number Housing Benefit cases recorded as Work in Progress within these statistics.
- 3.4. A review of the Service Level Agreement (SLA) between the Council and FES was included within the 2015/16 Internal Audit Plan to test the operation of the SLA in

practice. This review concluded that there are controls in place to ensure the Council is 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 all three actions included in the improvement have been completed by their due date. The completion of the action plan will be followed up in 2016/17 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 will be passed to the FES for investigation and, if proven, the case returned to the Council to pursue recovery.
- 3.6. In addition, as detailed in the Fraud Statistics Annual Report presented to 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 is developed.
- 3.7. A total of 100 days has been allocated within the 2016/17 Internal Audit Plan for corporate fraud work. This work was outstanding at 30 September 2016. However, the outcomes from this programme of work are included in the Internal Audit Activity Reports to the Forum, when concluded.

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. As noted above, from 1 November 2014, information relating to Housing Benefit fraud has been provided by the Benefits and Revenues Section from records held by them in relation to FES referrals.
- 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 six month period to 30 September 2015 and 30 September 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 were considered for inclusion in the Corporate Fraud plan within the 2016/17 annual Audit Plan. There have been no specific patterns or trends identified in the period to 30 September 2016 in addition to those already considered to be of high risk
 - there were 115 investigations valued at £591,000 either reported in the period or carried forward from 2015/16. This represents an increase in both the

number and value of investigations from the same period in 2015. The increase in number can be attributable to the number of benefits cases carried forward from the previous years. This was mainly as a result of delays by FES in concluding cases in the first year of operation. The increase in value can be attributed to one Internal Audit investigation which was valued at £200,000 (see Note One, Appendix One)

- there were 24 benefit fraud cases reported in the period to 30 September 2016 which is a decrease of 65% from the same period in 2015. All 24 cases resulted from external reviews, including RTI, HBMS and NFI and are, therefore, not within the control of the Council. In addition to the 24 reported benefit fraud cases, a further 104 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
- all concerns reported to Internal Audit during the period were investigated demonstrating the Council's zero tolerance to fraud
- of the 115 open cases, 39 (34%) valued at £353,000, were closed within the period. This represents an increase when compared to the six month period to 30 September 2015. The majority of work in progress (86%) relates to Benefit cases passed to FES for further investigation. As detailed in 3.4 above, the SLA audit improvement plan has been implemented which should help to improve results in this area. This audit will be followed up in 2016/17 in line with standard Internal Audit procedures
- of the number of cases investigated, 51% were founded
- the majority of the number of founded cases, 85%, relate to Benefit Fraud cases or fraud committed by a third party. This is consistent with previous years' results
- all recoveries reported in this period relate to benefit fraud. The value of previous and current year recoveries has increased when compared to the previous year's results by 23% from £26,000 to £32,000. There was no change in the value of the current year's recovery. The current year's collection represents 7% of founded benefit fraud in the period which is a slight reduction of 2% from the same period in 2015
- the cost of investigations concluded by Internal Audit has increased from the same period last year, however, this reflects the complexity of the investigations and the time required to conclude the investigation. The majority of costs were incurred investigating cases which resulted in implementation of improvement plans and disciplinary action being instigated
- 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. 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 followed up by Internal Audit to ensure implementation and that gaps in controls have been addressed. The outcomes from this work are included in the Internal Audit Activity Reports to the Forum when concluded.

- 5.2. There were four improvement plans containing a total of 28 high priority actions agreed with Heads of Service during the six month period to 30 September 2016. Follow up of these actions will be included in the 2017/18 Audit Plan.

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 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. The Forum will be advised of all updates, once agreed. Statistics in relation to employees completing the LOL course will be provided in future update reports.
- 6.3. Internal Audit will continue to collate and report fraud statistics to the Risk and Audit Scrutiny Forum on a six monthly basis.

7. Financial Implications

- 7.1. The investigation of fraud and the collection and reporting of fraud statistics will be carried out within existing resources.
- 7.2. A total of 100 days has been allocated within the 2016/17 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 where required.

8. Other Implications

- 8.1. Fraud Risk is recognised within the top 10 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. Updates to the registers will be included in the Fraud Statistics report where required.
- 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 during 2016/17 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 has been prepared and will be agreed with the new fact-finding team within Personnel Services.
- 8.4. Internal Audit undertook a self assessment against good practice guidance in fraud management in 2014/15. The latest CIPFA guidance, Fraud Risk Evaluation Diagnostic 2 (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.

- 8.5. 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 Organised Crime. In February 2015 the Deter Sub-Group of the Serious Organised Crime Taskforce, developed "A Local Authority readiness – Serious Organised Crime and Corruption Risk Checklist/Survey" to assist with this. Internal Audit included an allocation of time within the 2015/16 Internal Audit Plan to complete this Checklist/Survey.
- 8.6. This audit work concluded that overall there is an awareness of the risks posed by Serious 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 Organised Crime. However awareness of Serious Organised Crime could be strengthened throughout the Council and controls within operational procedures could be improved to further mitigate against the risk of Serious Organised Crime. An improvement plan was agreed with the Council's Single Point of Contact for Serious Organised Crime which should ensure that awareness is increased and controls improved. The follow up of the completion of the improvement plan is included in the 2016/17 Internal Audit Plan and will be reported in line with standard Internal Audit procedures.
- 8.7. Internal Audit will continue to include an allowance within the Internal Audit plan to undertake assessments against good practice in fraud management where required.
- 8.8. There are no implications for sustainability 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.

Paul Manning

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22 February 2017

Link(s) to Council Values/Objectives

- ◆ Objective – Governance and Accountability

Previous References

- ◆ Fraud Statistics Six Monthly Update to the RASF, 19 January 2016
- ◆ Annual Fraud Report to RASF, 20 September 2016

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 30/09/15		Six Months to 30/9/16	
	Nos.	£000	Nos.	£000
Concerns reported in period by Source				
Internal	70	244	1	1
External	16	4	36	125
Total Reported in period	86	248	37	126
Previous years Concerns C/F	7	1	78	465
Total open concerns in period	93	249	115	591
less Work in progress	71	243	76	238
Closed investigations (Note 1)	22	6	39	353
Concluded by IA (Inc joint)	5	0	7	201
Concluded by others	17	6	32	152
Not investigated	0	0	0	0
Total Concluded	22	6	39	353
<u>Investigative Outcomes</u>				
Allegation correct	21	6	20	276
Insufficient information	1	0	3	0
Unfounded allegations	0	0	16	77
Total	22	6	39	353
<u>Fraud Classification (founded)</u>				
External	12	2	3	15
Internal	6	2	3	201
Benefits (Including NFI)	3	2	14	60
Total	21	6	20	276
<u>Recoveries</u>				
Recoveries previous year		26		32
Recoveries current year		1		1
Insurance Recoveries		0		0
Total Recovery		27		33

<u>Internal Audit Net Cost of Concluded Investigations</u>	£000	% of total Cost	£000	% of total Cost
Allegation correct	15	100%	13	59%
Insufficient information	0	0	6	27%
Unfounded allegations	0	0	3	14%
Total	15		22	

Note 1: Included within the closed investigations value as at 30 September 2016 is an ongoing police investigation. This investigations was originally included in the Work in Progress figures reported in the Fraud Statistics Annual Report 2016 as £135k. However following further Police investigation the estimated value of the fraud has increased to £200k.

Performance Measures

	Target	As at 30/9/15	As at 30/09/16
Sanctions			
% Founded Employee Cases where employee identified considered for a disciplinary hearing	100%	100% (5)	100%(3)
No. Benefit Cases with Sanctions (Annual Target/Cumulative total)	N/A (Note 2)	0	14

Note 2: Benefit Fraud Sanctions decided by FES

Improvements			
Number of investigation Follow Up Audits completed		0	0
Number of High Priority Actions in original investigations		0	0
Number of Actions completed by due date	100%	N/A	N/A

Fraud Management			
Routine Anti Fraud reviews concluded in period		0	0
Reviews resulting in positive assurance (good or adequate) Note 3	100%	N/A	N/A

*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
2015/16 Action Plan
Appendix 3

	Action	Target Completion Date	Responsibility	Progress
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
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
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 2016/17 PSIAS inspection.
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
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.

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)
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
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	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. 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.
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	Complete: Not considered necessary at this time. Internal Audit and Accountancy qualifications held by Internal Audit team and considered to be sufficient to 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