

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	24 April 2019
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics and National Fraud Initiative 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 2018 and a comparison to the six monthly statistics to 30 September 2017.
- ◆ provide an update on progress of the 2018 National Fraud Initiative exercise.

2. Recommendation(s)

2.1. The Risk and Audit Scrutiny 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 for the six month period to 30 September 2018 together with a comparison to the statistics for the same period in 2017. 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 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 from October 2017 will have an impact on the number of housing benefit claimants. It is, therefore, expected that the number of fraud cases will gradually decrease over future years.

The Council will continue to pursue all housing benefit fraud overpayments where appropriate. Internal Audit previously completed a procedural check on Universal Credit and were satisfied that procedures were in place to timeously identify and stop housing benefit payments to claimants who have moved to Universal Credit and, therefore, avoiding overpayments. Further audit work to obtain assurance that the procedures are working as intended has been completed in Quarter 4 of 2018/2019. This confirmed that controls are in place, procedures have been developed and processes are being followed to end housing benefit for the claimant when they move to Universal Credit.

- 3.5. The Revenues and Benefit Section continues to deliver an annual programme of rolling reviews on housing benefit 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 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.

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. 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 inherently have a higher risk of fraud are considered for inclusion in the annual Audit Plan. There have been no specific patterns or trends identified in the period to 30 September 2018 in addition to those already considered to be of high risk.
- 4.3. The Benefits and Revenues Section continue 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.
- 4.4. An analysis of the fraud caseload for the six month period to 30 September 2018 and the comparative period in 2017 is detailed in Table One.

Table One - Fraud Caseload

Status	Six Months to 30/09/18		Six Months to 30/09/17	
	Nos.	£000	Nos.	£000
Cases open as at 1 April	115	394	119	375
Concerns reported to 30 September	81	107	54	139
Caseload at 30 September	196	501	173	514
Cases closed in period (see Table Two)	81	153	29	68
Work in progress at 30 September	115	348	144	446

- 4.5. The increased number of cases reported in the period relates to thefts and benefit cases reported to and investigated by FES. The residual caseload as at 30 September 2018, however, reduced as more investigations were closed in that period and cases concluded. The value of ongoing cases as at 30 September 2017 and 2018 is broadly comparable to the number of cases in progress at those dates.
- 4.6. In relation to the increase in thefts, Risk Management are working with the Council's Security Manager to improve security and are providing financial support to Council Services through the Risk Management fund to implement improvements.
- 4.7. Within cases reported in the period to 30 September 2018, there were 52 benefit fraud cases which is an increase of 27% from the same period in 2017. This includes all cases referred to FES in the six months to 30 September 2018 and cases concluded by FES where the referral originated with FES.
- 4.8. 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 30/09/18		Six Months to 30/09/17	
	Nos.	£000	Nos.	£000
Founded allegation (see Table Three)	57	142	26	67
Insufficient information	11	8	2	1
Unfounded allegations	13	3	1	0
Total	81	153	29	68

- 4.9. 70% of all cases, that were investigated, were founded and, for founded investigations involving an employee, the employee was either dismissed or resigned.
- 4.10. An analysis of founded allegations is detailed in Table Three:

Table Three – Analysis of Founded Allegations

Source of fraud	Six Months to 30/09/18		Six Months to 30/09/17	
	Nos.	£000	Nos.	£000
External	7	0	3	5
Internal	2	1	0	0
Benefits	48	141	23	62
Total	57	142	26	67

- 4.11. 96% 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 increased from £28k in the six month period to 30 September 2017 to £36k in the same period in 2018. All recoveries reported in this period relate to benefit fraud.
- 4.13. 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. The majority of

the total costs of £2,000 to investigate the fraud were incurred investigating unfounded or unsubstantiated cases and the relatively low cost of investigation reflects that only limited work was undertaken to establish if a fraud had occurred.

- 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 (RASC).

5. Improvements

- 5.1. On the conclusion of all internal investigations, an assessment is made on whether an 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 RASC as part of Internal Audit's annual assurance report.
- 5.2. There was one improvement plan issued by Internal Audit during the period under review with twelve separate actions to be implemented. Follow up of all high priority actions resulting from fraud investigations will be included in future Audit Plans.

6. National Fraud Initiative

- 6.1. Internal Audit continues to facilitate the Council's participation in the National Fraud Initiative exercise. Data was extracted and uploaded in early October 2018 to allow the subsequent data-matching exercise to be undertaken with the final data extract from the electoral register and Council Tax system uploaded in January 2019. Matches have been returned and plans are being developed to investigate target groups of matches during 2019/2020.

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.
- 7.2. A Learn on Line (LOL) Fraud Awareness course is available to all employees with People Connect access. Internal Audit are currently reviewing the content and format of all fraud related LOL courses to ensure still relevant.
- 7.3. Internal Audit will continue to coordinate future NFI exercises and collate and report fraud statistics on a six monthly basis to the RASC.

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. A total of 171 days has been allocated within the 2018/2019 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 has been allocated for NFI.

9. Other Implications

- 9.1. 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.
- 9.2. Fraud Risk Registers are now in place within all Resources and are reviewed and updated annually in line with standard Risk Management Procedures.
- 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 to promote all fraud policies linked to planned workshops that will be led by Police Scotland in Spring 2019.
- 9.4. 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. Internal Audit will continue to include an allowance within the Internal Audit Plan to undertake such assessments.
- 9.5. There are no sustainability issues 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.

Paul Manning

Executive Director Finance and Corporate Resources

8 April 2019

Link(s) to Council Values/Objectives/Ambitions

- ◆ Objective – Governance and Accountability

Previous References

- ◆ Fraud Statistics and NFI Six Monthly Update, 21 March 2018
- ◆ Fraud Statistics Annual Report 2018, 18 September 2018
- ◆ The National Fraud Initiative 2016, 18 September 2018

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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