

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	17 September 2013
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics Annual 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 year to 31 March 2013 and provide a comparison to the 2011/2012 statistics

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 performance measures to the Risk and Audit Scrutiny Forum since 2009.
- 3.2. This report provides information on the number, types and outcomes of fraud investigations within South Lanarkshire Council and details performance measures for the year to 31 March 2013 together with a comparison to the statistics for same period in 2012. It includes all frauds reported to Internal Audit, Benefit Frauds investigated by Housing Services and insurance losses resulting from a failure in internal controls.
- 3.3. The report provides good comparative information and highlights that the number and value of fraud within the Council continues to decrease. Of the total value of founded fraud investigations within South Lanarkshire Council, the highest proportion, 59%, relates to Benefit Fraud, the majority of which is committed by external parties. This is a lower proportion than in the previous year. However, the total value of founded fraud has itself reduced by 55% which, coupled with the fact that a Council wide NFI exercise was completed in the previous year, may account for a lower percentage of benefit fraud cases.

- 3.4. Areas within the Council that inherently have a higher risk of fraud are considered for inclusion in the fraud management plan within the annual Audit Plan. The collection of fraud statistics also helps Internal Audit identify areas of high risk and specific patterns or trends that require further review.
- 3.5. During 2012/2013, there were two instances of theft of vehicles and an allegation in relation to the sale of scrap material within the Forrest Street depot. An Internal Audit investigation was undertaken into these cases. To address this pattern, Internal Audit has included an allocation within the 2013/2014 Internal Audit Plan to review the systems and controls in place within the Forrest Street depot.

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 Internal Audit depending on the nature of the fraud and the operational knowledge required.
- 4.2. Housing Services, Benefits Investigation Team are responsible for recording and investigating all external benefit fraud and supply the details of the number and value of benefit frauds, the amounts recovered and the sanctions imposed for consolidation with the information held by Internal Audit.
- 4.3. The Risk Management Section is responsible for collecting and recording all insurance loss information. Relevant information is provided to Internal Audit on a six monthly basis to allow this information to be included within the Fraud Report.
- 4.4. The results for the years to 31 March 2012 and 31 March 2013 are detailed in Appendix One. However a summary of the results is detailed below:-
- There were 90 closed concerns in the year to 31 March 2013 with a total value of £168,000. This represents a decrease from the previous year of 47% in number and 54% in value. This is partly attributable to the fact that additional fraud was identified in 2012 through the participation in the Council wide NFI exercise but may also indicate improvement of controls within the Council
 - All concerns reported in 2012/2013 were investigated demonstrating a zero tolerance to fraud within the Council
 - A higher proportion of investigations were undertaken by Internal Audit in 2013 than in previous years mainly due to risk assessment and the nature of the investigations reported this year. This has informed the audit planning process for 2013/2014
 - Of the number of cases investigated, 90% were founded
 - The number of internal fraud cases, as a proportion of the total number of fraud cases, increased by 8% in 2012/2013. This still only equates 11 cases as compared to seven in the previous year
 - The majority of the number of founded cases, 86%, relate to Benefit Fraud cases or fraud committed by a third party. This is consistent with previous years' results
 - Recoveries have decreased this year. However, both the current and previous year recoveries relate to benefit fraud cases which have reduced in value by £247,000 (72%) in 2012/2013

- There has been an increase of recoveries through insurance which reflects that the Council is actively pursuing all options to recover fraud
- The percentage of frauds identified and reported via internal sources has increased by 7% which indicates that fraud awareness within the Council is improving
- 70% of investigations were completed within the eight week target
- Disciplinary hearings can only be held where there is sufficient information to identify the employee(s) responsible for the fraud. From the 11 founded cases involving an employee, there were four occasions where it was possible to convene a disciplinary hearing

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 will be followed up by Internal Audit to ensure implementation in line with the audit planning strategy.
- 5.2. Internal investigations resulted in an improvement plan being agreed in 14 of the 27 cases. The most common actions relate to:-
 - Introducing and/or updating procedures
 - Ensuring there is adequate security over Council assets
 - Ensuring access to keys and Council premises is adequately controlled
 - Undertaking independent management checks

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. In order to increase employees' understanding of the risk of fraud within the Council, Internal Audit, in consultation with Personnel Services, developed a Learn on Line fraud awareness course. The course is aimed at all employees. It defines fraud and highlights where fraud can occur, who can commit fraud, possible signs of fraud and how to report a fraud. The course was originally launched in 2011/2012 and has since been updated to reflect the feedback received from Managers and Heads of Service. It was anticipated that the updated course would be available from July 2013, however, a revised date of 30 September has now been agreed. The course will be rolled out to all Resources through the Personnel Managers' Group.
- 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 collection and reporting of fraud statistics will be carried out within existing resources.

8. Other Implications

- 8.1. Fraud Risk is recognised as among 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 anticipated that, through continuous collection and monitoring of fraud statistics, preventative measures can be introduced which will ensure scarce resources are protected and improvements made where necessary.
- 8.2. During 2012/2013, Internal Audit carried out a self assessment of the counter fraud arrangements within the Council. CIPFA's Fraud Risk Evaluation Diagnostic 1 (FRED1) assessment tool was used for this and to highlight gaps in good practice. An action plan has been prepared to address the gaps identified. A review of the fraud statistics which are reported is included within the action plan. Changes in the reporting format will be highlighted in the next fraud report where applicable. It is anticipated that the action plan will be fully implemented by the Internal Audit Section by 30 September 2013.
- 8.3. Following the Welfare Reform, there will be some changes within the Council's Benefit Section. Specifically, Benefit fraud investigations will no longer be the responsibility of the Council and will be undertaken by the DWP. This will have an impact on the Benefit Fraud information included in future Fraud Reports, however, this change is not expected to be fully implemented until 2014.
- 8.4. 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

Executive Director (Finance and Corporate Resources)

21 August 2013

Link(s) to Council Values/Objectives

- ♦ Objective – Governance and Accountability

Previous References

Fraud Statistics Annual Update to the RASF, 4 September 2012

Fraud Statistics Six Monthly Update to the RASF, 5 February 2013

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 31/03/12		Year 31/03/13	
	Nos	£000s	Nos.	£000s
Total concerns	175	402	95	168
less Work in progress	6	37	5	0
Closed investigations	169	365	90	168
Concluded by IA (Inc joint)	6	0	16	58
Concluded by others	163	365	74	110
Total Concluded	169	365	90	168
<u>Investigative Outcomes</u>				
Insufficient information	16	1	4	2
Allegation correct	134	358	81	162
Unfounded allegations	19	6	5	4
Total	169	365	90	168

Fraud Classification (Founded Cases)	Year to 31/03/12		Year to 31/03/13	
	Nos	£000s.	Nos	£000s.
External	11	4	18	25
Internal	7	12	11	42
Benefits (Including NFI)	116	342	52	95
Total	134	358	81	162
<u>Recoveries</u>				
Recoveries previous year		90		79
Recoveries current year		50		14
Insurance Recoveries		0		29
Total Recovery		140		122

Performance Measures

	Target	As at 31/03/12	As at 31/03/13
Reporting Source			
Internal	80%	66%	73%
External	20%	34%	27%

Concluded Investigations			
Completed within 8 weeks of being reported	100%	64%	70%

Sanctions			
% Founded Employee Cases considered for a disciplinary hearing (Note 1)	80%	83%(10)	36% (4)
No. Benefit Cases with Sanctions	80	97	86

Note 1: Disciplinary hearings can only be held where there is sufficient information to identify the employee(s) responsible for the fraud