

Report

Report to:	Risk and Audit Scrutiny Committee
Date of Meeting:	21 September 2020
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Fraud Statistics Annual Report 2020
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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 year to 31 March 2020 and a comparison to the same period in 2019.

2. Recommendation(s)

2.1. The 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 year to 31 March 2020, together with a comparison to the statistics for the same period in 2019. 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. Therefore, housing benefit fraud statistics will continue to be included within the fraud statistics reported. As it will be necessary to rely on FES providing 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.
- 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 risk assessed and all cases are investigated, as appropriate. Internal Audit may 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 year to 31 March 2020 in addition to those known already.
- 4.3. An analysis of the fraud caseload for the year to 31 March 2020 and the comparative period in 2019 is detailed in Table One.

Table One - Fraud Caseload

Status	Year to 31/03/20		Year to 31/03/19	
	Nos.	£000	Nos.	£000
Cases open as at 1 April	78	69	115	394
Concerns reported to 31 March	137	132	182	158
Caseload at 31 March	215	201	297	552
Cases closed in period (see Table Two)	(70)	(62)	(219)	(483)
Work in progress at 31 March	145	139	78	69

- 4.4. 79% of the cases reported in the period relate to benefit cases reported to and investigated by FES. A further 18% relate to thefts and break-ins. This split is similar to that of cases reported in the same period in 2019.
- 4.5. An analysis of closed cases in the year is detailed in Table Two:

Table Two - Analysis of Closed Cases

Source of fraud	Year to 31/03/20		Year to 31/03/19	
	Nos.	£000	Nos.	£000
Founded allegation (see Table Three)	46	56	158	449
Insufficient information	9	0	19	26
Unfounded allegations	15	6	42	8
Total	70	62	219	483

- 4.6. 66% of all cases, that were investigated, were founded. One of these cases involved a South Lanarkshire Council employee and appropriate disciplinary processes were invoked.
- 4.7. An analysis of founded allegations is detailed in Table Three:

Table Three – Analysis of Founded Allegations

Source of fraud	Year to 31/03/20		Year to 31/03/19	
	Nos.	£000	Nos.	£000
External	24	19	18	5
Internal	1	0	3	1
Benefits	21	37	137	443
Total	46	56	158	449

- 4.8. All except one founded case relate to Benefit Fraud cases or fraud committed by a third party.
- 4.9. 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 decreased from £140k in the year to 31 March 2019, to £54k in the same period in 2020. The 2019 level of recoveries is linked to an increased number of cases that were closed in that year following a detailed review and for which overpayments were tracked for the first time to ascertain the level of recovery. The 2020 recovery rate of £54k is, therefore, more comparable to recoveries in previous years (2018, £46k and 2017, £66k). All recoveries reported in this period relate to benefit fraud.
- 4.10. The cost of investigations concluded by Internal Audit has increased when compared to the same period in 2019 from £14k to £19k. The cost of an investigation reflects the complexity of the investigation and, therefore, the time required to conclude. 78% of costs were incurred to conclude work on procurement, respond to a Police enquiry and review a case that was the subject of a disciplinary hearing.
- 4.11. 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 monitored through local Performance Indicators and are reported to each meeting of the Risk and Audit Scrutiny Committee.
- 5. Improvements**
- 5.1. On the conclusion of all internal investigations, an assessment is made on whether improvement actions are necessary. 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 from concluded investigations are reported to this Committee within routine activity update reports presented at each meeting and as part of Internal Audit's annual assurance report.
- 5.2. There were seven improvement plans issued by Internal Audit during the period under review with thirty seven separate actions to be taken. Follow up of all high priority actions resulting from fraud investigations will be included in future Audit Plans.
- 6. Employee Implications**
- 6.1. The 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. A Learn on Line (LOL) Fraud Awareness course is available to all employees with People Connect access.

- 6.2. Internal Audit will continue to coordinate future NFI exercises and collate and report fraud statistics on a six monthly basis to this Committee.

7. Financial Implications

- 7.1. The investigation of fraud, participation in NFI exercises and the collection and reporting of fraud statistics was carried out within existing resources.
- 7.2. A total of 111 days was allocated within the 2019/2020 Internal Audit Plan for fraud risk work. This included an allowance for contingency time to undertake fraud investigations, where required. An additional allowance of 40 days was allocated for NFI.

8. Climate Change, Sustainability and Environmental Implications

- 8.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

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.. Under the Regulation of Investigatory Powers Act 2000, the Council can make use of surveillance powers in its investigation of fraud. During 2020 to date, South Lanarkshire Council has used these powers twice, one of which was in a joint operation with Police Scotland. Neither of these cases involved Internal Audit. The Council will continue to use these powers, in compliance with the Act, if an assessment of a case has confirmed that this is the only route to conclude an investigation.
- 9.3. Fraud Risk Registers are now in place within all Resources and are reviewed and updated annually in line with standard Risk Management procedures.
- 9.4. 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 can be undertaken by Internal Audit to promote fraud policies, if considered appropriate.
- 9.5. In order to ensure the Council is fully aware of and prepared for emerging fraud risks, Internal Audit periodically carries 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. These reviews during 2019/2020 did not highlight any action that was required to be taken to address gaps in procedures.

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)

31 August 2020

Link(s) to Council Values/Objectives/Ambitions

- ◆ Objective – Governance and Accountability

Previous References

- ◆ Fraud Statistics Annual Report 2019, RASC, 18 September 2019
- ◆ Fraud Statistics Six Monthly Update, RASC, 19 February 2020

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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