

# Report

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Report to:	<b>Risk and Audit Scrutiny Forum</b>
Date of Meeting:	<b>18 February 2014</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Fraud Statistics and National Fraud Initiative Six Monthly Update</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide a summary of fraud statistics for the six month period to 30 September 2013 and provide a comparison to the statistics for the same period to September 2012
- ◆ provide a summary of the progress with the 2012 National Fraud Initiative (NFI) Exercise

## 2. Recommendation(s)

2.1. The Risk and Audit Scrutiny Forum is asked to approve the following recommendation(s):-

- (1) that the fraud statistics are noted
- (2) that the progress with the 2012 National Fraud Initiative Exercise is 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 Risk and Audit Scrutiny Forum since 2009.
- 3.2. This report provides information on the number, types and outcomes of fraud investigations within the Council together with a comparison to the statistics for same period in 2012. It includes all frauds reported to Internal Audit during the six months to 30 September 2013, all benefit frauds investigated by the Housing Benefit Fraud team and insurance losses resulting from a failure in internal controls or which have been investigated by Internal Audit.
- 3.3. The report provides good comparative information and highlights that the value and number of frauds within the Council has decreased from the same period in the previous year. Of the total founded fraud investigations within the Council, the majority continues to relate to benefit fraud committed by external parties.
- 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. There have been no specific patterns or trends identified during the six month period to 30 September 2013 in addition to those already considered to be of high risk.

- 3.5. Housing Services, Benefits Investigation Team carry out targeted reviews based on their local knowledge, past cases and emerging benefit fraud trends. Targeted reviews on earners and pensioners are being undertaken in 2013/2014. In addition the Department of Work and Pensions (DWP) makes fraud referrals for follow up by the Benefit Investigation Team.
- 3.6. The development of a single fraud investigation service will affect both NFI investigation arrangements currently in place and general fraud investigation across the Council. During 2014/15, Internal Audit will be involved in ensuring that effective joint working arrangements are established in relation to areas of corporate fraud that remain within the Council's remit. This will be considered by the Welfare Reform Monitoring Group and Internal Audit forms part of this Group.

#### **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. The Benefits Investigation Team is responsible for recording and investigating all benefit fraud and supplies details of the number and value of benefit frauds, the amounts recovered and the sanctions imposed to Internal Audit for consolidation with the information held by Internal Audit.
- 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 2012 and 30 September 2013 are detailed in Appendix One. However, a summary of the results is detailed below;
- There were 38 investigations closed in the six months to 30 September 2013 with a total value of £74,000. This represents a decrease from the same six month period in the previous year of 17% in both number and value
  - All concerns reported in the six month period were investigated demonstrating a zero tolerance to fraud within the Council
  - Of the number of cases investigated 79% were founded
  - The number, value and proportion of internal fraud cases decreased when compared to the same period last year. This may indicate better fraud management within the Council
  - The majority of the number of founded cases, 93%, relate to Benefit Fraud cases or fraud committed by a third party. This is consistent with previous results
  - The number of benefits frauds has reduced, however, the amount has increased by 12%. This could indicate a delay in the identification of the fraud which results in a larger overpayment. Many of the fraud cases investigated by Housing Services have been referred to them by DWP which may contribute to delays
  - The target for completion of audits within eight weeks was not met. This was mainly due to the complex nature of the investigations and the resulting time involved in collating relevant information to allow the investigation to be concluded. The target for completion of the audit will now be set on an

individual job basis which should ensure targets set correspond to the complexity of the investigation

- Verbal assurance has been provided by Housing Services that the annual benefits target for sanctions will be met
- There has been no change in the amount of recoveries in the current year when compared to the same period last year. Recoveries for previous years have reduced by 25%. This is consistent with the reducing level of money able to be recovered for these years and the reducing level of fraud year on year. All recoveries reported in this period, with exception of recoveries through insurance, relate to benefit fraud. Housing Services continue to take proactive steps to recover all fraud debt

## **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 in line with the audit planning strategy. Outcomes for concluded investigations are reported to the Risk and Audit Scrutiny Forum when they are finalised as part of routine updates.

## **6. 2012 National Fraud Initiative Progress**

- 6.1. The National Fraud Initiative (NFI) is a counter fraud exercise whereby data is taken from Councils and other public bodies and cross matched to identify the potential for fraud. Councils are then informed of the resulting indicative matches. Audit Scotland co-ordinates the NFI exercise in Scotland.
- 6.2. The focus of the NFI exercises alternates annually between a limited exercise and a full exercise. The 2012 NFI exercise was a Council wide exercise and resulted in a total of 12,554 matches. This is a 14% reduction from the previous exercise. Full details of the 2012 NFI exercise were provided in the 2012 National Fraud Initiative report to the Forum on 18 June 2013.
- 6.3. Councils are not expected to investigate every match but the decision to restrict investigations must be risk based and a recommendation on the number of investigations to carry out is provided by Audit Scotland.
- 6.4. The target number of investigations set by the Council for the 2012 exercise is 2,604 cases over eight separate areas, which is 11% higher than the targets set by Audit Scotland. Target completion dates were also set by the Resources undertaking the investigations. A breakdown of these targets is detailed at Appendix 2.
- 6.5. The target dates have not been met in all of the eight areas. The main reason for this is administrative in that cases were not being closed through the NFI website by Resources on the conclusion of their investigations, therefore, many of the cases remain recorded as "in progress". Internal Audit is now monitoring investigations on a monthly basis to ensure closed investigations are recorded as such on the NFI website. Future reports will detail the actual number of completed cases.
- 6.6. Audit Scotland expects Councils to carry out NFI investigations timeously, however, they do not set a target date for completion. Internal Audit will monitor progress against the target investigations on a monthly basis and follow up all delays. It is anticipated that all investigations will be completed by 31 March 2014.
- 6.7. Fraud identified through the NFI exercise is included within the fraud statistics within this report. There are four fraud cases amounting to approximately £8,000 which are included within the fraud statistic in Appendix One. The fraud identified relates solely to benefit fraud and is included within the benefit fraud total in the Appendix.

## **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 away from the Council's primary objectives.
- 7.2. Internal Audit will continue to collate and report fraud statistics on a six monthly basis to both the Corporate Management Team and the Risk and Audit Scrutiny Forum.

## **8. Financial Implications**

- 8.1. The collection and reporting of fraud statistics will be carried out within existing 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.

## **9. Other Implications**

- 9.1. Fraud Risk is recognised as among the top risks facing the 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. 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.
- 9.3. In addition, Internal Audit undertakes self assessments against good practice guidance in fraud management produced by CIPFA. An allowance has been made in the 2014/2015 Internal Audit Plan to undertake an assessment against the latest CIPFA guidance, Fraud Risk Evaluation Diagnostic 2 (FRED2). Gaps identified during this self assessment will be included within an action plan and reported to the Forum. Completion of the action plan will contribute to improvements in the management of fraud risk within the Council. Internal Audit will continue to include an allowance within the Internal Audit plan to undertake assessments against good practice in fraud management.
- 9.4. There are no implications for sustainability 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)**

22 January 2014

### **Link(s) to Council Values/Objectives**

- ◆ Objective – Governance and Accountability

**Previous References**

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

2012 National Fraud Initiative Report to the RASF, 18 June 2013

Annual Fraud Report to the RASF, 17 September 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	Six Months to 30/09/12		Six Months to 30/09/13	
	Nos.	£000's	Nos.	£000's
Total concerns	51	102	42	80
less Work in progress	5	13	4	6
Closed investigations	46	89	38	74
Concluded by IA (Inc joint )	10	38	5	0
Concluded by others	36	51	33	74
Total Concluded	46	89	38	74
<b><u>Investigative Outcomes</u></b>				
Insufficient information	1	0	4	0
Allegation correct	42	85	30	72
Unfounded allegations	3	4	4	2
Total	46	89	38	74
<b><u>Recoveries</u></b>				
Recoveries previous year		50		38
Recoveries current year		6		6
Insurance Recoveries		21		13
Total Recovery		77		57

Fraud Classification (founded)	Six Months to 30/09/12		Six Months to 30/09/13	
	Nos	£000s.	Nos	£000s.
External	8	19	10	27
Internal	8	26	2	0
Benefits (Including NFI)	26	40	18	45
Total	42	85	30	72

## Performance Measures

	Target	As at 30/09/12	As at 30/09/13
<b>Reporting Source</b>			
Internal	80%	84%	76%
External	20%	16%	24%

<b>Concluded Investigations</b>			
Completed within 8 weeks of being reported	100%	100%	36%

<b>Sanctions</b>			
% Founded Employee Cases considered for a disciplinary hearing	80%	25%(2)	100%(2)
No. Benefit Cases with Sanctions (Annual Target/Cumulative total)	80	50% (note 1)	17

Note 1: Benefits sanctions target changed in 2013/2014 from 25% of accepted referrals to 80 sanctions imposed in the year therefore comparison is not possible

## Appendix 2

<b>Summary Title</b>	<b>Target</b>	<b>Target Completed</b>	<b>%</b>	<b>In Progress</b>	<b>%</b>	<b>Target Date for completion</b>	<b>Target Met</b>
Housing Benefits	925	506	55%	110	12%	31/03/14	N/A
Payroll	217	98	45%	119	55%	30/04/13	Investigations complete- Website to be updated
Tenant	99	24	24%	2	2%	30/09/13	No
Blue badge	576	562	98%	0	0%	30/06/13	Yes – original target met by due date, additional matches were provided by NFI after target date will be completed by December 2013
Private Resident in Care Home	171	171	100%	0	0%	30/06/13	Yes
Insurance Claimant	79	79	100%	0	0%	30/04/13	Yes
Creditor	536	232	43%	0	0%	30/09/13	Investigations complete- Website to be updated
UKBA Matches	1	0	0%	0	0%	30/06/13	No
<b>Overall matches</b>	<b>2,604</b>	<b>1,672</b>	<b>64%</b>	<b>231</b>	<b>9%</b>		

Note: The data above reflects statistics recorded on the NFI Website (ref: Paragraph 6.5)