

# Report

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Report to:	<b>Risk and Audit Scrutiny Forum</b>
Date of Meeting:	<b>16 December 2010</b>
Report by:	<b>Chief Executive</b>

Subject:	<b>Fraud Statistics and 2009/2010 NFI Update</b>
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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 2010 and the six monthly figures to 30 September 2010.
- ◆ Provide an update on the 2009/10 NFI exercise.

## 2. Recommendation(s)

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

- (1) that the contents of the report are noted
- (2) that the changed value for money arrangements for whistleblowing are noted.

## 3. Background

- 3.1. CIPFA's Better Governance Forum (BGF) in association with ALARM, the Association of Local Authority Risk Managers prepared best practice on combating the risk of fraud in public authorities. This guidance is known as the Red Book II.
- 3.2. The Internal Audit section assessed the Council's compliance with this guidance and prepared a gap analysis and action plan. Included within this action plan were tasks to "design quarterly reports to show source, numbers and outcomes" and "consider setting targets for future years, especially for recoveries".
- 3.3. This report provides information on the number, types and outcomes of fraud investigations and details improvement targets where applicable. These targets are preliminary estimates and will be refined as more trends data becomes available. Appendices compare 2009/10 statistics to the first six months of 2010/11 but it is too early in the presentation to determine any material trends or patterns.

## 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 only registered for monitoring of trends.

- 4.2. Housing Services, Benefits Investigation Team are responsible for recording all benefit fraud and they supply the number and value of benefit frauds, the amounts recovered and the sanctions imposed to Internal Audit for consolidation with other statistics. Results of investigations are also recorded on the Figtree system.
- 4.3. Full statistical results for 2009/10 and for the first six months of 2010/11 are detailed in Appendix One.
- 4.4. Highlights for 2009/10 include;
- Three quarters of all concerns reported relate to benefits fraud
  - All concerns were investigated which supports a zero tolerance approach and 88% were concluded in the year (119 cases from a total of 135)
  - Only 8% of concerns were investigated by Internal Audit ( ten cases in total)
  - In 85% of concluded investigations, the fraud concern has been proven. This amounts to £271,064
  - Only 22 concerns involved employees. Less than half were proven
  - Of the ten founded cases against employees, nine were formally sanctioned or resigned
  - A significant proportion of benefits frauds resulted in formal cautions, penalties and prosecutions
- 4.5. Highlights for the first six months of 2010/11 include;
- The level of reported concerns has increased, mainly in benefits but also including external thefts and break-ins. Increases are common during periods of recession.
  - The level of founded concerns, by value, has however reduced from 99% in 2009/10 to only 86% in the first six months of 2010/11. (£271k in 2009/10)
  - Internal Audit continues to investigate the same low proportion of cases, namely seven to date compared to ten in the previous complete year
  - Sanctions or resignations occurred in the eight employee cases completed to date, a reflection of the zero tolerance policy
  - Despite collection of recovery statistics only starting in 2009/10, the first half year's recovery rate is already at 15%. It should be noted that benefits recoveries have long tail payback periods.
- 4.6. Appendix One also shows the extent to which benefits fraud has been subject to sanctions which range from cautions to prosecutions. Progress against targets is highlighted at Appendix Two together with proposed explanations of performance. The Forum is asked to note statistics and highlights.

## **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. Outcomes for concluded investigations are reported to the Risk and Audit Scrutiny Forum when they are finalised.
- 5.2. Improvement actions, arising from non benefits investigations, are noted in detail in Appendix Three but include the following commonly recognised controls:-

- Introduction or update of procedures
- Authorisation of transactions
- Spot checks instructed by local management
- Investigation of irreconciling transactions
- Training
- Security
- Segregation of duties

## **6. 2009/10 NFI Update**

- 6.1. The 2009/10 NFI exercise commenced in March 2010 and is currently ongoing. This exercise involves a comparison between the electoral register and council tax. The purpose is to detect cases where single person discount (SPD) is being claimed when there is more than one person over 18 resident in the household. There has been a reduction of 62% from the previous SPD exercise in the number of matches identified. This has mainly been due to the proactive work carried out by Housing Services in identifying households where children are reaching the age of 18 and sending letters to those households advising that, as their child has reached the age of 18, they will no longer be entitled to single person discount and informing them of other discounts that may be available under certain conditions. If no contact is made by the Council Tax payer the discount is cancelled from the birthday of the child and a new bill is issued.
- 6.2. A total of 2,347 matches were identified in the 2009/10 SPD exercise. Of those, Housing services agreed to investigate 2,133 (90%) by 31 March 2011. As at 30 September 2010, 1,060 (50%) investigations had been concluded resulting in the identification of overpayments totalling £51,627.
- 6.3. All overpayments are treated as errors. This treatment is consistent with previous exercises and reflects the initial approach taken by Housing Services in recognition of the "Rising 18's" households and the importance of recovery. Housing Services take steps to recover all overpayments identified through the NFI SPD exercise.

## **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. All employees must have, and be seen to have, the highest standards of honesty, propriety and integrity in the exercise of their duties.
- 7.3. Internal Audit will continue to collate and report fraud statistics at least annually.

## **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.
- 8.2. A saving of around £2500 has been made by bringing whistle-blowing promotion in – house. (Refer paragraph 9.3).

## **9. Other Implications**

- 9.1. 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 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. The Council has recently reviewed its arrangements for whistle-blowing and has opted for in-house provision of a whistle-blowing telephone line and promotional materials. The telephone number, which will be managed through the call centre system, to be used from January 2011 is 08457 406080. The arrangements will be known as "Fraud Alert". Members are asked to note the revised number and that this change represents better value for money than the previous bought-in service.

## **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 but Internal Audit liaises with the Corporate Personnel Officers group in the analysis and presentation of fraud information.

**Archie Strang**  
**Chief Executive**

24 November 2010

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

- ◆ Improvement Theme: Governance and accountability

### **Previous References**

None

### **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 Performance 2010/11

	2009/10		6 Months to 30/09/10	
	No.	£	No.	£
<b>Concerns reported:</b>				
B/F from Previous period			11	48,380.00
Benefits B/F			5	6,909.91
Reported in period – non benefits	33	138,092.43	14	237,614.00
Reported in period - benefits	93	217,062.33	69	135,772.98
Reported in period - NFI	9	38,531.94	6	26,078.94
<b>Total reported concerns</b>	<b>135</b>	<b>393,686.70</b>	<b>105</b>	<b>454,755.83</b>
<b>Investigation status:</b>				
B/F Investigations concluded in period		Not Available	10	13,380.00
Current Investigations concluded in period	22	24,712.43	13	237,314.00
Concluded in period – b/wd benefits		Not Available	0	0.00
Concluded in period – current benefits	88	210,152.42	53	114,494.81
Concluded in period - NFI	9	38,531.94	6	26,078.94
<b>Concluded in period - Total</b>	<b>119</b>	<b>273,396.79</b>	<b>82</b>	<b>391,267.75</b>
WIP C/F	11	113,380.00	2	35,300.00
Benefits WIP C/F	5	6,909.91	21	28,188.08
<b>Total reported concerns</b>	<b>135</b>	<b>393,686.70</b>	<b>105</b>	<b>454,755.83</b>

**Investigation responsibility:**

No Investigation	0	0.00	0	0.00
Concluded Resource Investigations (incl Benefit IGT)	100	213,927.33	65	199,498.81
Concluded Internal Audit Investigations	10	20,937.52	7	62,350.00
Concluded Joint Investigations	0	0.00	2	1,240.00
Reported directly to police	0	0.00	2	102,100.00
Concluded NFI investigations	9	38,531.94	6	26,078.94
<b>Total</b>	<b>119</b>	<b>273,396.79</b>	<b>82</b>	<b>391,267.75</b>
Work in progress	16	120,289.91	23	63,488.08
<b>Total reported concerns</b>	<b>135</b>	<b>393,687.70</b>	<b>105</b>	<b>454,755.83</b>

**Concluded investigations - Classification**

Theft External/break in (FT)	3	730.35	2	54,000.00
Theft Internal (FI)	4	1,144.56	10	50,341.00
Theft - opportunist (FOPP)	0	0.00	1	100.00
Governance Issue (FG)	1	0.00	1	0.00
Conduct Issue (FC)	4	1,000.00	3	13,983.00
Procedural Breach (FP)	7	2,887.52	1	25.00
Embezzlement (FE)	1	3,950.00	5	132,245.00
Bribery/Corruption/Collusion (FB)	1	15,000.00	0	0.00
Benefit Fraud Including NFI (FBF)	98	248,684.36	59	140,573.75
General (FGEN)	0	0.00	0	0.00
<b>Total</b>	<b>119</b>	<b>273,396.79</b>	<b>82</b>	<b>391,267.75</b>

**Concluded Investigations – Outcomes**

Not Investigated (NI)	0	0.00	0	0.00
Founded (SUB) – allegation proven	101	271,064.71	69	335,617.75
Unfounded (UN) – allegation incorrect	11	18.56	3	26,100.00
Unsubstantiated (UNF) – insufficient information	7	2,313.52	10	29,550.00
<b>Total</b>	<b>119</b>	<b>273,396.79</b>	<b>82</b>	<b>391,267.75</b>

**Employee - Sanctions**

	No.	No.
Dismissed	2	6
Written Warning	2	1
Verbal Warning	1	0
<b>Total employees formally sanctioned</b>	<b>5</b>	<b>7</b>
Resigned	4	1
No formal/ informal action	1	1
<b>Total employees subject to disciplinary</b>	<b>10</b>	<b>9</b>
Passed to Police	1	2
No disciplinary action	14	14
<b>Total employees investigated</b>	<b>25</b>	<b>25</b>

**Concluded investigations - External thefts**

Passed to Police	0	2
No action	3	0
Not Known	0	0
Other	0	1
<b>Total External sanctions (excl Benefits)</b>	<b>3</b>	<b>3</b>

**Concluded investigations - Benefits**

Administrative Penalty	26	27
Administrative Caution	4	5
Passed to Procurator Fiscal	23	13
Successful Prosecution	1	6
<b>Total Benefit Sanction (excl NFI)</b>	<b>53</b>	<b>45</b>
<b>Sanction Outstanding</b>	<b>35</b>	
<b>Benefit Investigations Concluded</b>	<b>88</b>	

**Recoveries**

Fraud Recovery Cumulative	Total 2009/10		Six months to 30/0910	
	£	%	£	%
O/S Fraud C/F from previous period			266,147.40	
Founded Fraud identified in period	271,064.71		<b>335,617.75</b>	
<b>Total</b>	<b>271,064.71</b>		<b>601,765.15</b>	
Current Housing Benefits fraud recovered	3,520.31	2%	5,400.94	5%
Previous period Housing benefit fraud recovered	Not available	0%	23,634.71	11%
NFI Recovered	97.00	0.25%	3,731.78	14%
Other	1,300.00	5.8%	55,134.00	22%
<b>Total Recovered</b>	<b>4,917.31</b>	<b>2%</b>	<b>87,901.43</b>	<b>15%</b>

**Additional recovery of administrative penalties**

Total O/S Administrative Penalties B/F			9,501.32	
Total Administrative Penalties Raised In period	10,596.14		12,605.33	
<b>Total</b>	<b>10,596.14</b>		<b>22,106.65</b>	
<b>Total Recovered In period</b>	<b>1,094.82</b>	<b>10%</b>	<b>891</b>	<b>4%</b>

**Performance Measures**

	<b>Target</b>	<b>As at 31-Mar-10</b>	<b>As at 30-Sep-10</b>	<b>Possible interpretation</b>
<b>Reporting Source</b>				
Internal	<b>80%</b>	77%	64%	Revised fraud awareness being developed Promotion of whistle-blowing and NFI SPD cases
External	<b>20%</b>	23%	36%	
<b>Concluded Investigations</b>				
Completed within 8 weeks of being reported	<b>100%</b>	59%	38%	Revised fraud procedures not yet fully embedded
<b>Sanctions</b>				
% Employee sanction rate	<b>80%</b>	50%	78%	If include resignations this improves to 90% and 89% On track
No. Benefit Cases with Sanctions (Annual Target/Cumulative total)	<b>80</b>	53	45	
<b>Recovery In Year</b>				
Housing benefit (2009/10 and Current)	<b>35%</b>	2%	9%	Pre 2009/10 excluded Provisional target
Administrative Penalties Recovered	<b>15%</b>	10%	4%	
NFI	<b>35%</b>	0.3%	14%	Improving position Pilot targets set provisionally
Other	<b>35%</b>	6%	22%	

\* Some investigations can result in multiple sanctions against groups of employees

Recommendations from 2009/10 non benefits investigations

Appendix Three

Resource	Audit Number	Assignment name	Action
Corporate Resources	I613169	District Court Cash checks - Ham & EK	The update of procedures within the District Court should continue to be progressed and issued to relevant staff members.
			A column for two staff signatures/initials should be inserted within the book used for the recording of returned payments, to confirm that these payments have been double checked.
			Number or allocate a letter to the Licensing and Registration Receipt Book forms, in order to provide a clearer audit trail between Receipt Form and ledger book.
			Explanations for any differences between income sheets and Court reports from ICON, and banking totals sheets and income sheets, should be recorded to provide an audit trail between these documents.
			Reiterate to staff that all unused bank pay-in slips should be clearly marked as "cancelled" at all times.
			Numbered bank bags should be issued in sequence for audit trail purposes.
			Pursue an outcome to the Securicor investigation regarding amendments to pay-in amounts.
			<p>In order to restrict access to and increase security of safe keys and petty cash keys within the Licensing and Registration section, it should be ensured that :</p> <ul style="list-style-type: none"> <li>◆ The number of safe keys in use within the office should be reduced</li> <li>◆ Access should be restricted to a minimum number of staff members and keys should be held on designated staff members' person at all times</li> <li>◆ The remaining safe key given to the supervisor on duty should be stored permanently in a more secure location</li> <li>◆ A key holder list is maintained</li> <li>◆ Access to petty cash key(s) is restricted to a minimum number of staff members and these keys should be stored separately in a secure location</li> </ul>
			<p>In order to maintain consistency, accuracy and transparency of methods used to maintain records for the receipt of income, it should be ensured that :</p> <ul style="list-style-type: none"> <li>◆ The proposed new ledger book proforma should be implemented as soon as possible</li> <li>◆ Staff are reminded to countersign Licensing and Registration Receipt Forms at all times</li> <li>◆ Income sheets are held in date order for audit trail purposes</li> <li>◆ Securicor staff sign the Cash Bag Log as evidence of a check and that the log is fully completed, at all times</li> <li>◆ Records in relation to returned payments are maintained</li> <li>◆ Licensing and Registration Receipt Forms have the method of payment recorded at all times</li> <li>◆ Two staff members sign against each payment recorded within the ledger book</li> </ul>



			<ul style="list-style-type: none"> <li>◆ Income sheets are directly entered onto Excel, omitting the manual process, and the sheet should be printed off and “Completed By” and “Authorisation” sections signed by two relevant staff members</li> <li>◆ Two staff members sign the “Summary of Money Taken For/Paid at Other Courts and Payments Carried Forward to Next Day” sheet, at all times</li> <li>◆ The “Total Banked” section of the income sheet is fully completed at all times</li> <li>◆ An arithmetic check is performed on banking totals sheet</li> <li>◆ Two staff members sign banking totals sheet when a midday and evening reconciliation has been performed at all times, and two signatures are recorded to verify that the float has been checked</li> <li>◆ Issues in relation to the recording of bank bag numbers on income sheets for audit trail purposes and the completion of the “Authorisation” section of income sheets should be raised with the Chief Cashier</li> <li>◆ Copies of all court reports run from the ICON system by Cashiers are submitted to the Licensing and Registration section for audit trail purposes.</li> </ul>
			Cheque bag numbers should be fully completed within the Cash Bag Log. Any cash/cheques which cover more than one day’s income, which have all been placed in one bank bag, should be clearly shown within the Cash Bag Log for audit trail purposes.
			Payments received from customers should be recorded under the correct type of payment within the ledger book.
			At least two staff signatures should be recorded on weekly income reports issued to management, the combined office income document, and the reconciliation of income to the financial ledger, to verify that they have been reviewed and independently checked.
			Checks should be undertaken to ensure that income recorded within Registration weekly income reports is allocated under the correct day/date for audit trail purposes.
			A segregation of duties should be implemented across receipt of income, cashing-up and banking, only if practical. If segregation is not possible, steps should be taken to ensure that an independent check takes place across all parts of the process.
Corporate Resources	I672181	Flexi Card Authorisation	Flexi/id cards will not be issued prior to receipt of official personnel number
			Procedure to be put in place to ensure damaged cards are returned to manager, destroyed and a record is kept of all destroyed cards.
Community Resources	I674175	Missing Mobile - Trading Standards	Group mobile phones will be bar coded and scanned to record use. When not in use, they will be stored within a lockable cabinet
Community Resources	I674176	Libberton School Catering Income	All managers to scrutinise the RF1 reports on a monthly basis and take remedial action immediately.
Enterprise Resources	I677174	Building Warrant and Licensing Controls	Conduct closer scrutiny of applications selected for routine quality checks to ascertain the reasonableness of fees charged/received. Document quality checks and include evidence of such checks on files

			<p>Ensure that additional fees are recovered if, during site inspection, the surveyor notes any significant alteration to the original plans or the original value of works has been substantially understated</p> <p>Pursue recovery from employee A or from contractors with whom he is involved of fees deliberately understated in applications processed by employee A</p> <p>Raise concerns over employee A with HRMC and with the professional association</p> <p>Re-iterate to staff the importance of recovering the correct building warrant fee based on a professional assessment of the value of works</p> <p>Route all applications through the Building Standards Team Leader to determine the allocation of the application whether it is annotated for the attention of a particular surveyor or not. Check allocations made during the absence of the Team Leader to ensure proper procedures have been followed.</p> <p>Secure structural engineering reports and fire reports retrospectively if needed to meet current regulations</p> <p>Update administrative procedures to ensure segregation of duties at all stages of the building warrant process</p> <p>Pass the evidence collected to Strathclyde Police for further investigation and possible prosecution.</p>
Community Resources	I677193	Cleaning Overtime Carluke	<p>Amend column four of time sheet to include the reason for overtime worked as per the written procedures.</p> <p>Detailed written procedures should be produced that cover the allocation, recording, payment, authorisation and segregation of duties of cleaning overtime</p>
Enterprise Resources	I678163	Attendance car Parking Unit	<p>Conduct random spot checks and use CCTV to identify employees are patrolling areas as per hand held equipment</p>
Corporate Resources	I678172	Invoice Investigation CCPA	<p>Discuss the content of this report with the Head of Personnel Services and decide whether the disciplinary process should be invoked.</p> <p>Improve the system for recording work being done and the specific dates and times involved, and introduce an individual timesheet for staff to fill in retrospectively to account for their time.</p> <p>Write to the group, state the work we will carry out and make it clear that this will be done free of charge.</p> <p>Make it clear that our officers are not permitted to undertake any freelance work on SLVtv projects. Requests for raw footage to be incorporated in longer films should be made in writing to the Head of CCPA.</p>
Community Resources	I679184	H&T Employee Access	<p>Community Resources will undertake a full refresher course on security access for council buildings</p>

		Establish set responsibilities for the various tasks involved in the recruitment process, e.g. checking references, validating qualifications, etc.
		Implement procedures covering the provision of qualifications in all circumstances, regardless of the requirements of the job
		Introduce a checklist of documentation, based on Home Office guidelines, that must be supplied as proof of an applicant's identity and right to work in the U.K.
		Reinforce the requirement to check references in all cases, to ensure that all references obtained are genuine