

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	21 March 2018
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 2017 and a comparison to the six monthly statistics to 30 September 2016.
- ◆ provide an update on progress of the 2016 National Fraud Initiative exercise.

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).

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 2017 together with a comparison to the statistics for the same period in 2016. It includes all frauds reported to Internal Audit, benefit frauds during this period investigated by the DWP Fraud and Error Service (FES) 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. This has been evidenced by the increase in the number of Housing Benefit cases recorded as Work in Progress within these statistics.

- 3.4. The roll out of Universal Credit to all new benefits applicants in October 2017 will have an impact on the number of Housing Benefit claimants. It is, therefore, expected that the number of fraud cases will decrease in future periods. The Council will continue to pursue all Housing Benefit fraud overpayments, where appropriate.
- 3.5. Internal Audit completed a procedural check on Universal Credit in 2016/2017 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 avoid overpayments. Further audit work in this area to obtain assurance that the procedures are working as intended will be considered for inclusion in the 2018/2019 Internal Audit Plan.
- 3.6. 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 the FES for investigation and, if proven, the case returned to South Lanarkshire Council to pursue recovery. It should be noted, however, that if an overpayment has been identified by the Council, steps will be taken immediately to recover the overpayment. The recovery is not dependant on fraud being proven.

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. Information relating to Housing Benefit fraud has been provided by the Benefits and Revenues Section from records held by them in relation to FES referrals.
- 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 2016 and 30 September 2017 are detailed in Appendix One. However, a summary of the results is detailed below;
 - Areas within the Council that inherently have a higher risk of fraud were considered for inclusion in the 2017/2018 annual Audit Plan. There have been no specific patterns or trends identified in the period to 30 September 2017 in addition to those already considered to be of high risk
 - There were 173 investigations valued at £514,000 either reported in the period or carried forward from 2016/2017. This represents an increase in number but decrease in value of investigations from the same period in 2016. The increase in number can be attributed to the number of benefits cases carried forward from previous years. This is mainly as a result of delays by FES in concluding cases. The decrease in value can be mainly attributed to one high valued Internal Audit investigation which was included in 2016 statistics

- There were 41 benefit fraud cases reported in the period to 30 September 2017 which is an increase of 71% from the same period in 2016. 29 cases resulted from external reviews, including RTI, HBMS and NFI and 12 cases were from FES investigations. In addition to the 41 reported benefit fraud cases, a further 72 open cases are being investigated by FES. These cases are not included in the fraud statistics at Appendix One as these have not been confirmed as fraud. If confirmed, they will be included in future reports
- All concerns reported to Internal Audit during the period were investigated demonstrating the Council's zero tolerance to fraud
- Of the 173 open cases, 29 (17%) valued at £68,000 (34%) were closed within the period. This represents a decrease when compared to the six month period to 30 September 2016. The majority of work in progress cases (90%) relate to Benefit being investigated by FES
- Of the number of cases investigated, 90% were founded
- All 26 founded cases relate to Benefit Fraud cases or fraud committed by a third party
- All recoveries reported in this period relate to benefit fraud. The value of prior year recoveries decreased, when compared against the preceding year, by 13% from £32,000 to £28,000. See Appendix 1 ("Recoveries") for more detail. There was no current year recovery. This was due to only three current year fraud cases being closed in the period. Of these three cases, two were passed to the Compliance Section of FES in September 2017 to be followed up as the value was below the threshold for criminal prosecution (£2,000). Therefore, it is unlikely that repayment would have been received during the period to 30 September 2017. A decision was taken not to pursue recovery of the remaining case due to specific circumstances surrounding the claimant
- The cost of investigations concluded by Internal Audit has decreased from the same period last year, however, the cost of investigations is dependent on the number of cases concluded during the period, the complexity of the investigations and the time required to conclude the investigation. Therefore, the costs are not wholly comparable period by period
- 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

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 and that gaps in controls have been addressed. Outcomes for concluded investigations are reported to the Risk and Audit Scrutiny Forum (RASf) as part of the Internal Audit activity reports.
- 5.2. There were no improvement plans issued by Internal Audit during the period under review. However, assurance was obtained that action was taken immediately to address control gaps identified during the course of Internal Audit investigations. Follow up of all high priority actions resulting from fraud investigations will be included in future Audit Plans.

6. National Fraud Initiative

- 6.1. As advised in the 2016/2017 National Fraud Initiative report to the Forum on 20 September 2017, the 2016 National Fraud Initiative (NFI) exercise commenced in October 2016. The total number of matches resulting from this exercise was 12,147 excluding Single Persons Discount (SPD) matches and South Lanarkshire Council made an initial commitment to investigate 4,136 matches. However, this target was reduced to 3,809. The reduction was in relation to Housing Tenant match investigations. It is expected that Resources adjust their target number of investigations throughout the investigation to reflect the results obtained and avoid wasting resources investigating areas where no outcome is likely to be achieved.
- 6.2. The Benefits and Revenues Section will place reliance on ongoing internal and external reviews of SPD claimants. A sample of 139 NFI matches have been included in the external review of SPD carried out by Datacentre. Fraud or error identified from this review will be recorded on the NFI Website and will be included in the six monthly fraud statistics where relevant.
- 6.3. The target completion date for all investigations, with the exception of Housing Benefits, was agreed as 30 September 2017. There were five separate areas where this target was not met. There has been a delay in completion of the Tenant and Waiting List investigations as the Council was waiting on information for external parties in order to conclude these investigations. The delay in completing the Blue Badge investigations was a result of a large number of matches and limited resources available to carry out the investigations.
- 6.4. The remaining two Services have been reminded of the deadlines for completing the investigations and the importance of ensuring error and/or fraud is identified timeously. Further progress with the outstanding investigations has now been made and Internal Audit will continue to monitor completion of the investigations and follow up delays.
- 6.5. There was no fraud identified from the investigations completed as at 30 September 2017. However, there were 189 errors valued at £161k identified. Of the errors identified, the majority, 182 (96%), related to Blue badge 'errors'. The 'errors' occurred from a failure to update systems to record deceased persons. There was no financial consequence as a result of these errors. It is South Lanarkshire Council's policy not to request the return of a blue badge from a deceased Council resident, however, the records must be updated to ensure that a new badge is not issued. Steps have been taken to improve processes and ensure the Blue Badge System is updated timeously to reflect deceased persons.
- 6.6. Of the remaining seven errors, one related to housing benefits, one related to payroll and five related to duplicate creditor payments. The payroll and creditors overpayment have been recovered and steps are being taken to recover the housing benefit overpayment in line with the Council's debt recovery procedures.
- 6.7. A summary of the number of matches, the targets completed and the results is at Appendix Three.

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. A Learn on Line (LOL) Fraud Awareness course is available to all employees with People Connect access. It is recommended that all employees complete this course to further strengthen their fraud awareness. Further work is currently being undertaken by Internal Audit, in consultation with Personnel Services to review the content and format of the LOL course to ensure it is still relevant and is accessible to all employees. The Forum will be advised of all suggested updates prior to these being rolled out to employees. Statistics in relation to employees completing the LOL course will be provided in future update reports.
- 7.3. Internal Audit will continue to coordinate future NFI exercises and collate and report fraud statistics on a six monthly basis to the Forum.

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 236 days has been allocated within the 2017/2018 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 within the top 10 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. Updates to the registers will be included in the Fraud Statistics report where required.
- 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 the Council's Fraud Response Plan which should help to ensure all known fraud concerns are reported and that employees are made aware of the systems in place within the Council for reporting suspected or actual fraud. To support this process, a draft protocol has been prepared and will be agreed with the new fact-finding team within Personnel Services.
- 9.4. In order to ensure the Council is fully aware of and prepared for emerging fraud risks, Internal Audit carried out self assessment against good practice guidance in fraud management in 2014/2015. The latest guidance used by Internal Audit was CIPFA's Fraud Risk Evaluation Diagnostic 2 (FRED2) and the Local Authority readiness – Serious Organised Crime and Corruption Risk Checklist/Survey developed by the Deter Sub-Group of the Serious Organised Crime Taskforce. Internal Audit will continue to include an allowance within the Internal Audit plan to undertake assessments against good practice in fraud management where required.
- 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)

1 March 2018

Link(s) to Council Objectives/Ambitions/Values

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- ◆ Fraud Statistics Six Monthly Update to the RASF, 7 March 2017
- ◆ Annual Fraud Report to RASF, 20 September 2017
- ◆ National Fraud Initiative 2016 report to RASF, 20 September 2017

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 30/09/16		Six Months to 30/9/17	
	Nos.	£000	Nos.	£000
Concerns reported in period by Source				
Internal	1	1	4	4
External	36	125	50	135
Total Reported in period	37	126	54	139
Previous period Concerns C/F	78	465	119	375
Total open concerns in period	115	591	173	514
less Work in progress	76	238	144	446
Closed investigations	39	353	29	68
Concluded by IA (Inc joint)	7	201	2	3
Concluded by others	32	152	27	65
Not investigated	0	0	0	0
Total Concluded	39	353	29	68
<u>Investigative Outcomes</u>				
Allegation correct	20	276	26	67
Insufficient information	3	0	2	1
Unfounded allegations	16	77	1	0
Total	39	353	29	68
<u>Fraud Classification (founded)</u>				
External	3	15	3	5
Internal	3	201	0	0
Benefits (Including NFI)	14	60	23	62
Total	20	276	26	67
<u>Recoveries</u>				
Recoveries of previous year fraud		32		28
Recoveries of current year fraud		1		0
Insurance Recoveries		0		0
Total Recovery		33		28

<u>Internal Audit Net Cost of Concluded Investigations</u>	£000	% of total Cost	£000	% of total Cost
Allegation correct	13	59%	0.28	79%
Insufficient information	6	27%	0.05	14%
Unfounded allegations	3	14%	0.02	7%
Total	22		0.35	

Performance Measures

	Target	As at 30/09/16	As at 30/09/17
Sanctions			
% Founded Employee Cases where employee identified considered for a disciplinary hearing	100%	100%(3)	N/A (Note 1)
No. Benefit Cases with Sanctions (Annual Target/Cumulative total)	N/A (Note 2)	14	9

Note 1: No founded cases involving an employee were closed during this period

Note 2: Benefit Fraud Sanctions are decided by FES

Improvements			
Number of investigation Follow Up Audits completed		0	0
Number of High Priority Actions in original investigations		0	0
Number of Actions completed by due date	100%	N/A	N/A

Fraud Management			
Routine Anti Fraud reviews concluded in period		0	0
Reviews resulting in positive assurance (good or adequate) Note 3	100%	N/A	N/A

Note 3: **Good** assurance is obtained where expected controls are in place and neither non-compliance, weaknesses nor adverse governance impact has been identified. There are no high risk recommendations made. **Adequate** assurance is obtained where expected controls are in place but some non-compliance, weaknesses, areas for improvement or governance impacts of a minor or moderate nature have been identified.

**Summary
As at 30/09/2017**

Appendix 3

Summary Title	Total matches	Audit Scotland Recommended No. of investigation	SLC target for investigations	Target Completed	%	In Progress	%	Additional to target	Total Investigations completed	Error (No)	Error (£)	Fraud (No)	Fraud (£)
Total Housing Benefits Matches	1,438	141	141	120	85.1%	15	10.6%		120	1	8,691.93	0	0.00
Total Council Tax Reduction Scheme Matches	2,187	113	113	92	81.4%	19	16.8%		92	0	0.00	0	0.00
Total Payroll Matches	270	22	256	21	8.2%	8	3.1%		21	1	9,090.92	0	0.00
Total Tenant Matches (Note 1)	654	233	48	42	87.5%	6	12.5%		42	0	0.00	0	0.00
Total Right to Buy matches	138	124	124	124	100.0%	0	0.0%	5	129	0	0.00	0	0.00
Total Waiting List matches	2,152	2,058	2,058	2,051	99.6%	6	0.3%		2,051	0	0.00	0	0.00
Total Blue badge Matches	1,078	959	524	419	80.0%	1	0.2%		419	182	0.00	0	0.00
Total Residents Parking Permit Matches	38	33	38	38	100.0%	0	0.0%		38	0	0.00	0	0.00
Total Concessionary Travel Passes (Note 2)	509	499	0	0	0.0%	0	0.0%		0	0	0.00	0	0.00
Total Private Resident in Care Home matches	122	64	122	122	100.0%	0	0.0%		122	0	0.00	0	0.00
Total Personal Budget Matches	32	2	32	32	100.0%	0	0.0%		32	0	0.00	0	0.00
Total Insurance Claimant Matches	3	0	3	3	100.0%	0	0.0%		3	0	0.00	0	0.00
Total Creditor Matches	3,327	256	256	256	100.0%	0	0.0%	8	264	5	143,545.19	0	0.00
Total UKBA Matches	18	0	18	14	77.8%	4	22.2%		14	0	0.00	0	0.00
Total Procurement Matches	181	76	76	76	100.0%	0	0.0%	64	140	0	0.00	0	0.00
Overall matches	12,147	4,580	3,809	3,410	89.5%	59	1.5%	77	3,487	189	161,328.04	0	0.00

Note 1: Target number of investigations reduced from 375 to 48 to reflect the outcomes of completed investigations

Note 2: Not SLC system therefore no investigation target set