

Report by Chief Officer Audit & Risk

AUDIT COMMITTEE

20 May 2024

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Audit Committee with details of the Council's counter fraud responsibilities and an update on the fraud prevention, detection and investigation activity during the year to 31 March 2024, including outcomes from the Council's participation in the National Fraud Initiative 2022-2023.**
- 1.2 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council, safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group, whose purpose is to improve the Council's resilience to fraud, theft, corruption, and crime.
- 1.4 Part of the Audit Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources. Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the outcomes contained within this report.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit Committee:**
- a) Considers the specific counter fraud activity undertaken in 2023/24 in support of the Council's counter fraud policy and strategy; and**
 - b) Notes the counter fraud next steps planned for 2024/25.**

3 BACKGROUND

- 3.1 The size and nature of the Council's services, as with other large organisations, puts the Council at risk of loss due to fraud, theft, corruption and crime. The Council at its meeting on 16 December 2021 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy 2021-2024. These enable the Council to continue to refine its approach to tackling fraud, taking account of reducing resources, with a focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud.
- 3.2 The Counter Fraud Policy Statement outlines the key objectives and states the roles and responsibilities in tackling fraud. The primary responsibility for the prevention, detection and investigation of fraud rests with Management. The Counter Fraud Strategy 2021-2024 outlines the approach that will be adopted within Scottish Borders Council to tackle fraud, in support of the Counter Fraud Policy Statement. It is based upon the national counter fraud standard CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption' published in December 2014.
- 3.3 Establishing and maintaining a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption or crime and the leadership part played by the Council Management Team and Service Managers is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 3.4 Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council, safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 3.5 The Integrity Group is an officer forum, chaired by the Chief Officer Audit & Risk, which reports directly to the Council Management Team (CMT) and has representatives from HR, Finance, Legal, IT, and Procurement to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, theft, corruption, and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice.
- 3.6 Internal Audit is required to give independent assurance on the efficacy of processes put in place by Management to manage the risk of fraud. The Internal Audit Strategy, approved by the Audit Committee, states that during the course of all assurance work Internal Audit will consider fraud risks, and prevention and detection controls.
- 3.7 Part of the Audit Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.

4 COUNTER FRAUD SPECIFIC ACTIVITY 2023/24

- 4.1 Meetings of the Integrity Group were held during the year 2023/24 on 5 June, 4 September, and 4 December 2023 to undertake its remit to improve the Council’s resilience to fraud, corruption, theft and crime.
- 4.2 It is important that associated policies, procedures and guidelines across the Council are regularly reviewed and updated, as appropriate, to ensure that they keep pace with best practice in relation to fraud and corruption prevention and detection. The Integrity Group carried out an assessment during 2023/24 of the Council’s counter policy framework against best practice, the CIPFA Counter Fraud guidance, as set out in the table below:

The CIPFA Counter Fraud guidance states the minimum policy framework will include:	Associated Policies across the Council (latest approved date and responsible officer in brackets):
Counter Fraud Policy	Counter Fraud Policy and Strategy (December 2021; Chief Officer Audit & Risk)
Whistleblowing Policy	Whistle Blowing – Public Interest Disclosure Policy Appendix 2 of Code of Conduct for Employees (November 2022)
Anti-Money Laundering Policy	Anti-Money Laundering Policy (April 2020; s95 Officer/Pensions & Investments Manager)
Anti-Bribery & Corruption Policy	References to Bribery in Paras 1.2 Introduction, 9.2 Corruption, 14.5 Unacceptable Behaviour and Appendix 1 para 3.5 Gifts within Code of Conduct for Employees (November 2022)
Gifts & Hospitality Policy and register	Section 7 Hospitality, Section 8 Gifts and Appendix 1 General Guidance re Gifts within Code of Conduct for Employees (November 2022)
Conflict of Interest Policy and register	Section 4 Conflicts of Interest within Code of Conduct for Employees (November 2022) and Guidelines on Register of Interests (May 2022)
Codes of Conduct and Ethics	Code of Conduct for Employees (November 2022; Director People, Performance & Change/HR Manager)
Information Security Policy	Information Security Policy incorporates the subset of cyber security policy (September 2018; Information Governance / IT Security Lead)
Cyber Security Policy	

Integrity Group recommended actions are:

- A refresh of the Anti-Money Laundering policy (scheduled)
- Review and update of Information Security Policy (underway)

It is noted that some enhancements might provide the opportunity to raise awareness of the associated Policy as part of counter fraud measures.

- 4.3 One way to improve the Council's resilience to fraud, corruption, theft and crime is through carrying out a self-assessment of the Council's arrangements and agreeing any appropriate actions. The Chief Officer Audit & Risk disseminated the Audit Scotland report 'Fraud and Irregularity Update 2022/23' to the Integrity Group on 19 July 2023 [Fraud and irregularity: Annual report 2022/23 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk) (published 13 July 2023) that set out a summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2022/23. Each of the case studies (Grant Payments; Invalid Supplier; Procurement Card; School Funds; Payroll; Pensions; Theft of IT Hardware) were assigned to the relevant officer to set out the fraud risk controls in place at Scottish Borders Council and to determine whether any Management Actions were required to enhance those controls. The Audit Committee on 25 September 2023 considered the same Audit Scotland report and endorsed the tasks being undertaken by the Integrity Group.
- 4.4 The findings from the Integrity Group's assessment of counter fraud controls 2023-24 and associated Action Plan, in response to fraud risks set out in the Audit Scotland report, were presented to the Council Management Team on 1 November 2023 then to the Audit Committee on 13 November 2023 [Item No. 10 - Counter Fraud Controls Assessment 2023-24.pdf \(moderngov.co.uk\)](https://www.moderngov.co.uk). This provided assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud, though also highlighted that some fraud risk mitigation actions are required to be applied on a continuous basis.
- 4.5 The efficacy of the Council's arrangements for the prevention, detection and investigation of fraud and corruption is predicated on the ongoing awareness of and compliance with the approved policies, procedures and guidelines by staff when carrying out their duties, and on the vigilance of staff in identifying and reporting any irregularities. A suite of on-line training modules covering Fraud Awareness, The Bribery Act, and Anti-Money Laundering are available for staff to utilise, though this is an opportune time to refresh their content to ensure their ongoing relevance and to promote the modules within targeted Service areas where fraud risks are prevalent. Fraud Awareness is also included in the Induction for new members of staff. There is regular and evolving IT security awareness training for staff/users across all levels of the Council, delivered in various methods to ensure engagement and ownership. Furthermore, continued periodic emails are distributed regularly reminding staff of their responsibilities and guidance on what to do if a phishing email is received.
- 4.6 The Integrity Group routinely at its meetings through its membership gained insights on emerging risks and suggested actions from members' represented on national forums such as Scottish Local Authorities' Investigators Group, Scottish Local Authority Information Security Group, and Scottish Government Public Sector Cyber Resilience Network.
- 4.7 The graphic (Appendix 1) illustrates the current Assessment of Scottish Borders Council's Counter Fraud Maturity 2023/24, using the Scottish Government Counter Fraud Maturity Model 2015 as a best practice framework for self-assessment purposes, taking into account the counter fraud activity during the year overseen by the Integrity Group.

5 NATIONAL FRAUD INITIATIVE 2022-2023 OUTCOMES

- 5.1 Scottish Borders Council continues to participate in the National Fraud Initiative (NFI) 2022/2023 which is a UK-wide counter-fraud 2-year exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error. The Chief Officer Audit & Risk is the Senior Responsible Officer (SRO) for NFI and a Senior Internal Auditor acts as the Council's Key Contact for NFI (*since October 2023*).
- 5.2 The Integrity Group oversaw the initial planning, resourcing and data submissions associated with the Council's participation in the National Fraud Initiative (NFI) Exercise 2022/2023, including the completion of the NFI Self-Appraisal Checklist Part A Q1-9 'For those charged with Governance' and Part B Q1-9 'For the NFI Key Contacts and Users' (relevant to the Planning phase) in October 2022, which was presented to the Audit Committee on 13 February 2023 [Item No. 08 - NFI 2022-2023 Exercise Self-Appraisal Checklist.pdf \(modern.gov.co.uk\)](#).
- 5.3 During its meetings on 5 June, 4 September, and 4 December 2023 the Integrity Group has received updates on the NFI 2022-2023 Exercise resourcing and data match review activity being carried out by Services across the Council. This included the NFI Self-Appraisal Checklist Part B Q10-18 that was completed in August 2023 (relevant to Review Data Matches phase), and Part B Q19-21 that was completed in October 2023 (relevant to the Recording Outcomes phase).
- 5.4 The SRO facilitated the completion of the Self-Appraisal Checklist Part B Q10-18 and Part B Q19-21 with those individuals from Services involved in the review of data matches, and subsequent recording of outcomes. This ensured that the self-assessment took account of the Council's progress with the review of data matches phase of the NFI exercise and considered the staff resources that continue to be constrained due to other priorities. The latter was of particular importance when planning arrangements for the subsequent recording of outcomes. The NFI 2022-2023 Exercise Update and Self-Appraisal Outcomes were considered by the Council Management Team in advance of them being presented to the Audit Committee on 13 November 2023 [Item No. 11 - NFI 2022-2023 Exercise Self-Appraisal Checklist.pdf \(modern.gov.co.uk\)](#) to provide assurance that the Council's approach, resources and progress during the NFI exercise is appropriate.
- 5.5 The lead officers on NFI within Audit Scotland and the Cabinet Office have been kept informed of the approach within Scottish Borders Council to focus Services' limited staff resources on the review of data matches during the year 2023.
- 5.6 It should be noted that NFI is a small component of the Council's counter fraud framework which is implicit in the policies, procedures and controls (Financial, HR and Other) that are designed to prevent and detect fraud, theft and corruption across the range of the Council's Services as part of protecting the public purse.

5.7 The recording of outcomes by individuals in Services in the NFI Portal got underway in earnest in February and March 2024 with support from the Key Contact as this was a new learning experience for all of the individuals. The NFI 2022-2023 outcomes for Scottish Borders Council are summarised in the Table below:

Type	No of Matches in 2022/2023	No of matches reviewed	Fraud Detected	Errors Detected	Outcome (overpayment)
Housing Benefit	38	38	0	0	£0.00
Pensions	106	106	0	0	£0.00
Payroll	343	343	0	0	£0.00
Blue Badge	234	234	0	0	£0.00
Council Tax Reduction Scheme (CTRS)	433	433	1	12	£35,091.49
Creditors	4,249	4,249	0	12	£38,565.53
VAT	4,244	4,244	0	1	£26.00
Procurement	93	93	0	0	£0.00
Misc	89	0	0	0	£0.00
Sub-Total	9,829	9,740	1	25	£73,683.02
Council Tax Single Person Discount (SPD)	7,848	1,682	0	9	£960.11
TOTAL	17,677	11,422	1	34	£74,643.13

5.8 Key messages from the outcomes are as follows:

- Significant learning from the extensive coverage of data matches reviewed, based on the knowledge and experience of individuals in Services who are subject matter experts.
- Only 1 fraud detected through the NFI exercise which gives assurance on the efficacy of the Council's counter fraud framework (policies and procedures to support appropriate standards, behaviours and expectations; and processes and system-based controls to prevent and detect fraud proportionate to the risk).
- Low level of errors detected (34) relative to the totality of transactions within the types of data matches.
- It helps to confirm that services and payments are provided to the correct people and businesses.
- Recovery action of the circa £75k total overpayments, relating to the 1 fraud and 34 errors, is well-progressed.

5.9 Evaluation has been undertaken by individuals in Services of what worked well and what could be improved, as well as recognition of the extensive staff resources engaged from across a range of the Council's Services. These lessons learned will be invaluable in preparation for the Council's participation in the National Fraud Initiative (NFI) 2024/2025, which will be commencing soon.

6 COUNTER FRAUD NEXT STEPS 2024/25

- 6.1 The main elements of the Annual Plan 2024/25 activity for the Integrity Group will be to:
- a) Monitor the implementation of the improvement actions arising from the Counter Fraud Controls Assessment and the Cyber Security Maturity Assessment (CSMA); carry out a review of the policy framework for managing the risk of fraud; and raise fraud awareness as a method of prevention.
 - b) Review the fraud awareness, bribery, gifts, hospitality and interests, and anti-money laundering eLearning modules to set out the approach for e-learning targeted at specific groups across the whole Council.
 - c) Carry out a self-assessment of the Council's counter fraud arrangements using the Counter Fraud Maturity Model and identify any actions for implementation to improve the Council's resilience to fraud, corruption, theft and crime.
 - d) Oversee the planning for the Council's participation in the NFI Exercise 2024-2025 and, on a quarterly basis, monitor progress by Services on the data submission phase, the data match investigation phase, and the recording and reporting phase.

7 IMPLICATIONS

7.1 Financial

Effective internal control systems are designed to prevent and detect fraud and this contributes to safeguarding the Council's resources, for delivery of services, as part of protecting the public purse.

The Council's corporate subscription to the National Anti-Fraud Network (NAFN) £1,700 for 2024/25 is included within the Corporate Fraud budget in Audit & Risk service. Any additional costs arising from enhanced fraud risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no known frauds greater than £5,000 during 2023/24 that resulted in loss to the Council.

7.2 Risk and Mitigations

The process of identifying fraud risks by Management is based on the principles of the Council's Counter Fraud Policy and Strategy. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Integrity Group, including their oversight of the Council's participation in the NFI Exercise. The Audit Committee provides Elected Member oversight.

7.3 Integrated Impact Assessment

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. An Integrated Impact Assessment (IIA) was completed as part of the revised Counter Fraud Policy statement and Counter Fraud Strategy 2021-2024, approved by Council on 16 December 2021. This is a routine good governance report for assurance purposes. Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with appropriate legislation.

7.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist as part of the revised Counter Fraud Policy and Strategy 2021-2024. However, the application of practices associated with the Council’s Counter Fraud Policy and Strategy is fundamental to ensuring an effective response to fraud, theft, corruption, or crime. This will make a difference to the UN Sustainable Development Goal 16 “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels”.

7.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

7.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

7.7 Data Protection Impact Statement

There are no personal data implications arising from the report content.

7.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of the report content.

8 CONSULTATION

8.1 The Integrity Group has been consulted on this report during its quarterly meeting on 23 April 2024 as part of fulfilling its role in enhancing the Council’s resilience to fraud.

8.2 The Council Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, has been consulted on this Report on 8 May 2024.

8.3 The Director of Finance, Director of Corporate Governance (and Monitoring Officer), Director of People Performance and Change, and Communications team have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

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Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit Committee 10 May 2023

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Contact us at fraud@scotborders.gov.uk

Assessment of Scottish Borders Council's Counter Fraud Maturity 2023/24

