

**AUDIT AND RISK COMMITTEE**

**28 June 2016**

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**1 PURPOSE AND SUMMARY**

- 1.1 **This report provides the Audit and Risk Committee with an overview of the Council's responsibilities in respect of fraud prevention, detection and action and the progress made to deliver the Council's Counter Fraud Strategy 2015 including an update on improvement actions to refine the arrangements to tackling fraud at the Council and the Annual Fraud Report 2015/16.**
- 1.2 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. The primary responsibility for the prevention, detection and investigation of fraud rests with Management. Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management. Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.
- 1.3 The Council during 2015 refreshed its approach to tackling fraud with a refocus on prevention and detection using fraud risk assessment at its core. There is a 3-year counter fraud strategy and associated improvement plan to embed anti-fraud culture across SBC, taking account of reducing resources. The current position of improvements actions arising from that review are shown in Appendix 1.
- 1.4 The current requirement for reporting frauds and irregularities to Audit Scotland is the reporting of all frauds and irregularities greater than £5,000 where frauds have been perpetrated due to weaknesses in internal controls. There were no frauds greater than £5,000 during 2015/16. Though these are an important performance indicator of how effective the Council's fraud prevention and detection measures are, the Annual Fraud Report to the Audit and Risk Committee includes all known frauds.

**2 RECOMMENDATIONS**

- 2.1 **I recommend that the Audit and Risk Committee:**
- a) Considers the counter fraud work undertaken to deliver the strategy and whether any further action is required; and**
  - b) Notes the content of the annual fraud report 2015/16.**

### **3 BACKGROUND**

- 3.1 Scottish Borders Council is committed to minimising the risk of loss due to fraud, theft or corruption and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. The primary responsibility for the prevention, detection and investigation of fraud rests with Management.
- 3.2 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud. This is set out in the Internal Audit Charter that was approved by Audit and Risk Committee 29 March 2016 as follows:
- “Reviewing the effectiveness of controls put in place by Management to manage the risk of fraud. This requirement may involve Internal Audit in the following roles:
- reviewing and recommending improvements to fraud prevention controls and detection processes put in place by Management;
  - investigating the cause of fraud;
  - considering fraud risk in every audit;
  - advising the Audit and Risk Committee on counter fraud matters;
  - leading, assisting or liaising in fraud investigations where appropriate and requested by Management; and
  - responding to whistleblowers.”
- 3.3 Part of the Audit and Risk Committee’s role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.

### **4 COUNTER FRAUD MANAGEMENT REVIEW PROGRESS**

- 4.1 The changing context in which local government services are delivered is happening against a backdrop of depressed economic activity in which the fraud risk tends to increase. Harder times tend to lead to an increased motivation to defraud. These factors led the Chief Officer Audit & Risk to commission a review of the Council’s approach to tackling fraud in 2014.
- 4.2 The Corporate Counter Fraud Review 2014 concluded it important to embed a strong counter fraud culture as fundamental to the success of an effective response to fraud and identified the vital part played by Corporate Management Team and senior management in leading behaviours and behavioural change within the organisation and its partners and customers.
- 4.3 The findings of Corporate Counter Fraud Review 2014 were presented to the Audit and Risk Committee in June 2015 along with recommended improvement actions to refresh the Council’s approach to tackling fraud. The Audit and Risk Committee is expected to scrutinise progress with the implementation of the improvement actions, to oversee the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 4.4 An Internal Audit review was carried out during 2015/16 to provide an independent and objective assessment of the progress made on the implementation of the counter fraud improvement actions arising from the Corporate Counter Fraud Review 2014. The status of the counter fraud improvement actions arising from the Internal Audit review as at 17 March 2016 is shown in Appendix 1.
- 4.5 Tackling fraud is an integral part of protecting public finances. Further specific details on the Management arrangements that are in place at the Council for the prevention, detection and investigation of fraud are set out in the paragraphs below to ensure the Council’s on-going resilience to the threats of fraud, theft, crime and corruption.

- 4.6 A Corporate Fraud Working Group (CFWG) has been established in 2015, chaired by Chief Officer Audit & Risk, involving representatives from across the Council's services. The initial focus of the CFWG was to undertake a mapping exercise and gap analysis to determine whether SBC's Policy Framework complied with that identified as the key minimum requirement within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)'. A report in February 2016 to CFWG concluded that SBC was substantially compliant with the CIPFA Code, and specific improvement actions were agreed and progressed to address any gaps.
- 4.7 The Council's approach to tackling fraud has been refreshed in 2015 with a refocus on prevention and detection using fraud risk assessment at its core to embed anti-fraud culture across SBC, taking account of reducing resources. The revised Corporate Counter Fraud Policy (August 2015) sets out the Council's statement towards tackling fraud, theft and corruption, including roles and responsibilities, which is supported by the Counter Fraud Strategy for putting this into practice. The Counter Fraud Strategy (August 2015) sets out the Council's position on creating a counter fraud and corruption culture, plans and policies on how to deal with fraud, theft or corruption, deterrence and detection measures, training and awareness, action in response to suspected frauds, and monitoring and review of outcomes.
- 4.8 Since March 2015, when the Council's Housing Benefit Fraud investigation team of 3.57 FTE TUPE-transferred to the DWP, the investigation of Housing Benefit fraud is now the responsibility of their specialist fraud investigation service (SFIS). All Housing Benefit suspected fraud is now referred to SFIS.
- 4.9 A new 1 FTE Corporate Fraud and Compliance Officer (CFCO) post was established in 2015 within the Audit & Risk service to ensure that the Council is able to respond to corporate fraud issues and perform residual tasks following the establishment of SFIS, accommodated within the revised budget reflecting the reduced external funding and delivery of financial savings. Following a recruitment process an appointment was made with the successful candidate commencing in June 2015 and undertaking a formal course of training provided by CIPFA to become an Accredited Counter Fraud Specialist in December 2015. The initial deployment of the CFCO was to support the CFWG in its work and to lead on the implementation of the counter fraud improvement actions.
- 4.10 The fraud risk assessment work continues in 2016/17 using shared practice from other sources. The "Fighting Fraud and Corruption Locally: Local Government Counter Fraud and Corruption Strategy 2016-2019" states: Known Fraud Risks Remaining Significant include Tenancy, Procurement, Payroll, Council Tax, Blue Badge, Grants, Pensions, Personal budgets, Internal Fraud, and Identity Fraud; and the Emerging / Increasing Fraud Risks include Business rates, Right to buy, Money Laundering, Insurance Fraud, Commissioning of Services, and Cyber Crime. These are evaluated for relevance to Scottish Borders Council and a fraud risk assessment is carried out in respect of their likelihood / impact in order to deploy the CFCO to targeted areas of high fraud risk assessment with the aim of optimising potential returns.
- 4.11 An example of work underway early in 2016/17 is the CFCO review of the Council Tax Single Person Discount matches to check entitlement and, depending on customer response and intelligence gathered, Customer Services amend council tax records / bills to enable the Council to confirm that discounts and exemptions are only applied to those who are entitled to them and to optimise Council Tax income.

## **5 ANNUAL FRAUD REPORT 2015/16**

- 5.1 The current requirement for reporting frauds and irregularities to Audit Scotland is the reporting of all frauds and irregularities greater than £5,000 where frauds have been perpetrated due to weaknesses in internal controls. There were no frauds greater than £5,000 during 2015/16 (nil in 2014/15; 1 relating to Non Domestic Rates fraud £95,755 in 2013/14). Though these are an important performance indicator of how effective the Council's fraud prevention and detection measures are, the Annual Fraud Report to the Audit and Risk Committee reports all known frauds.
- 5.2 There is one case of corporate fraud <£5,000 which was perpetrated by an employee who was subsequently dismissed. The investigation was carried out due to suspected missing vouchers <£1,000. During the investigation process the internal control matters were discussed and improved practices were implemented in respect of security of payment media. (Corporate fraud cases <£5,000 - nil in 2014/15; 1 in 2013/14 relating to an employee embezzlement at a day centre and a connected social enterprise).
- 5.3 In addition to its own internal measures, the Council participates in the National Fraud Initiative (NFI) - computerised data matching between public bodies carried out with statutory authority and administered by Audit Scotland - as active detection and prosecution of fraudsters is a vital deterrent to others contemplating defrauding the public purse. The Council's external auditors, KPMG, carry out reviews of the Council's NFI participation on behalf of Audit Scotland and complete periodic returns to Audit Scotland. Findings are included in SBC's external audit reports.
- 5.4 KPMG's June 2015 return reported within the Annual Audit Report 2014/15 resulted in a red grading (defined by Audit Scotland as "unsatisfactory where improvement is required as a priority"). As a result, the Assistant Auditor General wrote to the Council highlighting the area of significant concern that no match investigation work had started. KPMG followed up progress in February 2016 and reported the position within the Interim Management Report 2015/16 as follows: Scottish Borders Council received a total of 3,990 matches; 2,827 matches had been closed of which 798 were recommended matches. The overall rating of the Council's participation was assessed as satisfactory ("green"). Scottish Borders Council has recorded no benefit outcomes from NFI 2014/15. Audit Scotland has indicated that the NFI 2014/15 national report will be published on 30 June 2016.
- 5.5 If significant amounts of fraud or error are not found and the fraud detection measures have been utilised properly, Management and the Audit and Risk Committee can take assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud.

## **6 IMPLICATIONS**

### **6.1 Financial**

The Council is committed to minimising the risk of loss due to fraud, theft or corruption by putting in place effective internal control systems designed to prevent and detect fraud and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. This includes the operational costs of resourcing the Corporate Fraud & Compliance Officer (1 FTE) within the 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.

## 6.2 Risk and Mitigations

- (a) Tackling fraud is an integral part of protecting public finances. Fraud has a serious impact on all parts of the economy. The National Fraud Authority in its 2013 Annual Fraud Indicator report estimates that fraud costs the UK around £52 billion per year. The cost of fraud to the public sector equates to £20.6 billion of which £2.1 billion relates to local government.
- (b) There is a risk that frauds will not be detected and acted upon though is being mitigated by way of fraud prevention, detection and investigation measures that are underpinned by the Council's Counter Fraud Strategy approved in August 2015. By improving fraud prevention controls it reduces the opportunity for fraud to enter the system and is likely to reduce the levels of fraud detected through exercises such as the National Fraud Initiative.
- (c) There is a reputational risk for the Council if its internal control, risk management and governance arrangements are assessed by external audit and inspection bodies as inadequate. The Annual Fraud Report is one way to evidence that this risk has been mitigated.

## 6.3 Equalities

Equalities and diversities matters are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation.

## 6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

## 6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

## 6.6 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.

## 6.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

# 7 CONSULTATION

- 7.1 The Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.
- 7.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated in the report.

### Approved by

**Jill Stacey, Chief Officer Audit & Risk**

**Signature .....**

Author(s)

| Name         | Designation and Contact Number               |
|--------------|--|
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**Background Papers:** Scottish Borders Council's Corporate Counter Fraud Policy Statement and Corporate Counter Fraud Strategy

**Previous Minute Reference:** Scottish Borders Council 27 August 2015; Audit and Risk Committee 30 June 2015

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting James Collin who can also give information on other language translations as well as providing additional copies.

Contact us at James Collin, Corporate, Email: [jcollin@scotborders.gcsx.gov.uk](mailto:jcollin@scotborders.gcsx.gov.uk)

**Improvement Actions** Status as at 17 March 2016 (Internal Audit review 2015/16)

In 2014 a Corporate Counter Fraud Review was undertaken to assess the efficacy of current fraud prevention, detection and investigation practices, identify improvements and inform the revised strategy and policy. The review came to an end in October 2014 and the results were reported to the Audit and Risk Committee at its meeting of 30 June 2015 with recommendations for approval of the revised Strategy and Policy Statement along with a list of improvement actions. A Summary showing the status of these actions is set out below:

| Ref | Improvement Action   | Progress to Date  | Status / target date                |
|-----|--|---|-------------------------------------|
| 4.1 | Revised policies, procedures and guidelines updated to reflect the revised Corporate Counter Fraud Strategy and approach including clarification of Roles and Responsibilities | Revised Corporate Counter Fraud Strategy and the revised Corporate Counter Fraud Policy Statement were approved by SBC 27 August 2015. Roles and Responsibilities are clarified within the policy statement.  | Complete                            |
|     |  | <p>A Counter Fraud Policy Review is being undertaken by the Corporate Fraud Working Group (CFWG) who have identified primary and secondary policies relating to fraud that require attention. A mapping exercise and gap analysis was then undertaken to determine whether SBCs Policy Framework complied with that identified as the key minimum requirement within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)'.</p> <p>A report presented to the Group by the Corporate Fraud and Compliance Officer (CFCO) on 22 February 2016 concluded that SBC was substantially compliant with the CIPFA Code but not completely and there were some gaps where policies either were in need of updating or where there were no supporting processes or procedures.</p> <p>As a result of the findings, improvement actions and further review recommendations have been presented to the Group for the responsible policy owners to take forward. Additionally the CFCO has produced the following to support the Code of Conduct and obligations of the Bribery Act 2010:</p> <ul style="list-style-type: none"> <li>• New guidance document on Gifts and Hospitality</li> <li>• New guidance document on Register of Interests</li> <li>• New electronic Registers for the above developed through Resource Link</li> <li>• Web information page on Whistleblowing</li> </ul> <p>Over and above the minimum key CIPFA Code policy requirement Standard Operating Procedures are being drafted that guide managers in the conducting of corporate fraud investigations.</p> | Work in Progress<br>(by March 2017) |

| Ref | Improvement Action   | Progress to Date  | Status / target date                |
|-----|--|---|-------------------------------------|
| 4.2 | Establishment of Corporate Fraud Team  | <p>A Corporate Fraud and Compliance Officer (CFCO) has been recruited internally and has been in post since June 2015.</p> <p>He undertook a formal course of training provided by CIPFA and is now an Accredited Counter Fraud Specialist.</p>   | Complete                            |
| 4.3 | Awareness training on prevention and detection of fraud to be developed and delivered to staff   | <p>The CFCO has developed the following eLearning modules which were approved by the CFWG 22 February 2016 and are to be rolled out via SB Learn:</p> <ul style="list-style-type: none"> <li>• Fraud Awareness</li> <li>• Bribery Act 2010</li> </ul>   | Work in progress<br>(by April 2016) |
| 4.4 | Application of Risk Management policy to Corporate Fraud Risk identification assessment control and monitoring including reflection of fraud risk areas within Risk Registers as appropriate | <p>A Fraud Risk Management Process and Toolkit have been developed (Feb 2016). The basic methodology is the same as that used for the Corporate Risk Management process though it differs in that the criteria for scoring has been deemed to be more appropriate to Fraud.</p> <p>A Corporate Fraud Risk Register is under development.</p> <p>The Finance Risk Register on Covalent includes the risk: CEFIN008 – Exposure to Fraud. The risk matrix score of this is AMBER (6) with internal controls scored as partially effective.</p>   | Work in Progress<br>(by Sept 2016)  |
| 4.5 | Proactive approach to fraud detection and communication of successful cases  | <p>Using the experience of the previous National Fraud Initiative (NFI) exercises where datasets were submitted to Audit Scotland and matches to review / investigate were sent back to the Council, it is envisaged that dataset matching could be done, and more regularly, in house.</p> <p>In conjunction with the current NFI exercise (where the CFCO is planning with Customer Services the approach that will be adopted for the review of the Council Tax Single Person Discount matches) the CFCO will try to recreate the results of external matching by using in-house software.</p> | Work in Progress<br>(by Sept 2016)  |



| Ref | Improvement Action  | Progress to Date   | Status / target date             |
|-----|---|--|----------------------------------|
| 4.6 | Sharing of Best Practice and Joint Working in countering fraud with External Partners and other Local Authorities | <p>The Counter Corporate Fraud Strategy states that SBC will continue to work with other organisations to manage its fraud risks and share best practice through participation in counter fraud forums at local and national levels. And that there will be further joint working in countering fraud in particular in response to the risks from organised crime.</p> <p>Between them the Chief Officer Audit &amp; Risk and the Corporate Fraud &amp; Compliance Officer attend the following groups and forums:</p> <ul style="list-style-type: none"> <li>• The Cross Sector Counter Fraud Forum - hosted by the Scottish Government</li> <li>• SLAIG (Scottish Local Authorities Investigators Group)</li> <li>• CIPFA (Accredited Counter Fraud Specialists Group)</li> <li>• National Fraud Initiative (NFI) - Audit Scotland</li> <li>• NAFN (National Anti-Fraud Network - an organisation that provides a wide range of data services to members)</li> <li>• Counter Fraud Conference - held by Scottish Government</li> <li>• CIPFA - occasional training sessions</li> <li>• Ernst &amp; Young - Public Sector Counter Fraud Seminars</li> <li>• SBC Serious Organised Crime Officer Working Group - in partnership with Police Scotland</li> <li>• NHS Borders Countering Fraud Operational Group – attended by Senior Internal Auditor</li> <li>• NHS Scotland Counter Fraud Services – annual visit to NHS Borders</li> </ul> | On going                         |
| 4.7 | Counter Fraud Arrangements of Alternative Service Delivery Models and Corporate Transformation Agenda.            | <p>The Council has a statutory duty under Following the Public Pound and therefore needs to be satisfied that, where services are commissioned via Alternative Service Delivery models, the provider meets the required standard of governance arrangements including counter fraud measures. The Council can support these operations in their early years.</p> <p>This work is at an early stage.</p>  | Work in Progress (by March 2017) |