

COUNTER FRAUD ANNUAL REPORT 2016/17

Report by Chief Officer Audit & Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Risk Committee with an update of the Council's fraud prevention, detection and investigation activity and the progress made to deliver the Council's Counter Fraud Strategy (2015) through implementation of recommended improvement actions.**
- 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.
- 1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud and Compliance Officer. Internal Audit provides advice and 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 including to oversee the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 1.4 The Council refreshed its approach to tackling fraud during 2015 with a refocus on prevention and detection using fraud vulnerability assessments 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. A report on status of recommended improvement actions 2015/16 was presented to Audit and Risk Committee in June 2016.
- 1.5 Further progress on recommended improvement actions has been made during 2016/17 as evidenced by the outcomes of the self-assessment shown in this report. 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 results in the Annual Fraud Report 2016/17 contained herein.

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 2016/17.**

3 BACKGROUND

- 3.1 In 2014 the Chief Officer Audit and Risk commissioned a counter fraud review anticipating the transfer of responsibility for investigating Housing Benefit fraud to the Department for Work and Pensions. A Counter Fraud Strategy was developed in 2015 with 3 year improvement plan and the establishment of a Corporate Fraud Working Group (CFWG) which has representatives from across the Council's services.
- 3.2 A new 1 FTE Corporate Fraud and Compliance Officer post was established in 2015 within the Audit & Risk service to ensure that the Council is able to respond to corporate fraud issues. The post-holder, an Accredited Counter Fraud Specialist since December 2015, leads on implementation of the counter fraud improvement actions and supports the CFWG in its work.
- 3.3 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud and liaises with the Corporate Fraud and Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.
- 3.4 Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control including to oversee the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.
- 3.5 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. A report on status of recommended improvement actions 2015/16 was presented to Audit and Risk Committee in June 2016.

4 COUNTER FRAUD MANAGEMENT REVIEW PROGRESS 2016/17

- 4.1 Fraud risk increases during times of change and depressed economic activities so it is important to ensure that Managers remain focused on fraud vulnerabilities and members of the Committee are assured that effective controls are in place.
- 4.2 Establishing a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption or crime and the leadership part played by Corporate Management Team and senior management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 4.3 The recommended improvement actions from the Corporate Counter Fraud Review 2014 are designed to enhance the existing appropriate arrangements the Council has in place to prevent and detect fraud.
- 4.4 The initial focus of the CFWG was to undertake an analysis to determine whether SBC's Policies complied with the 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 identified specific improvement actions to address any gaps. However, it was acknowledged that the Council should aspire to more than the minimum standard and the CFWG agreed to use the Counter Fraud Maturity Model endorsed by the Scottish Government and CIPFA as a self-assessment tool to guide development.

- 4.5 Appendix 1 illustrates the Council's current self-assessed position against the Counter Fraud Maturity Model based on the examples set out below:
- 4.5.1 **Ethics**
The Employee Code of Conduct covers all of the areas of ethical behaviour; some further explanation has been created for Gifts and Hospitalities, and Conflict of Interests.
- 4.5.2 **Policies**
A Fraud Response Plan has been written to standardise the Council's response when fraud is suspected and to assist Managers to know what options are available to them.
- 4.5.3 **Training and Development**
The CFWG have overseen the development of on-line training modules covering Fraud Awareness, The Bribery Act, Conflict of Interests, and Gifts and Hospitalities. These are now mandatory for new members of staff.
- 4.5.4 **Risk Assessments**
Ad-hoc fraud vulnerability assessments using a new methodology have been carried out in areas where assistance has been requested. This will be rolled out in areas identified by the "Fighting Fraud and Corruption Locally: Local Government Counter Fraud and Corruption Strategy 2016-2019". This states that known significant fraud risks include: Procurement; Payroll; Council Tax; Blue Badge; Grants; Pensions; Personal budgets; Internal Financial; Identity. Emerging areas of increasing fraud risks include: Business rates; Money Laundering; Commissioning of Services; and Cyber Crime. These will be evaluated for relevance and a fraud vulnerability assessment carried out to ensure effective controls are in place.
- 4.5.5 **Monitoring**
There are a number of existing controls across service areas and Managers are supported by the Internal Audit function which also provides assurance that controls are effective. Fraud vulnerability assessments will provide a way to identify monitoring controls.
- 4.5.6 **Fraud Reporting Arrangements**
This refers to the arrangements for individuals reporting suspicions to the Council. A fraud hot-line and on-line e-form are available for external customers. Internal whistle-blowing is within the HR policy.
- 4.5.7 **Investigation And Response**
There were 28 suspected frauds reported from 1 April 2016 to 10 January 2017. Of these, 20 relates to Council Tax as detailed in 6.3 below. These were all below the lower limit for reporting to the Procurator Fiscal. None of the remaining 8 cases were found to be fraudulent. The areas covered were: Homeless Service (1); misuse of a Blue Badge (1); Business Rates (2); Procurement (1); and Passenger Transport (1). Two of these cases related to employees which were dealt with using the Council's HR Disciplinary Procedure.
- 4.5.8 **Communications**
The Council's website includes a page developed to promote public use of the fraud hotline and on-line reporting. Communications promoting the use of this method of reporting have been produced along with internal communications to raise staff awareness.

5 NEXT STEPS

- 5.1 A Fraud Action Plan will be developed to include a timetable for assessing known fraud vulnerabilities and the effectiveness of the measures currently in place to control them. This will be a rolling programme across service areas to tie in with the introduction of the Business World system. Managers will be encouraged to monitor identified controls and engage with compliance exercises to ensure that those controls are working. This will also highlight areas where controls may no longer be proportionate to the threat or where new controls are required. Training will be offered to key staff coupled with regular communications to highlight issues, best practice and fraud awareness.
- 5.2 The introduction of the Business World system will formalise authorisation levels within the system in line with the scheme of delegation and introduce new functionality that will allow a more systematic approach to checking and recording fraud compliance within HR, Payroll, Procurement and Finance management and administrative processes.

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- 6.1 All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no frauds greater than £5,000 during 2016/17 (nil in 2015/16; nil in 2014/15; one relating to Non Domestic Rates of £95,755 was reported 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.
- 6.2 In 2016/17 there was one case of corporate fraud for a value less than £1,000 which was perpetrated by an employee who repaid the amount and was subsequently dismissed. The HR led investigation was carried out due to missing vouchers. Following the investigation, process internal controls were improved. (Corporate fraud cases for less than £5,000 - nil in 2015/16; nil in 2014/15; one in 2013/14 relating to embezzlement by an employee at a day centre and a connected social enterprise).
- 6.3 Compliance work completed in 2016/17 related to Council Tax Single Person Discount which identified £86k Council Tax Discount wrongly claimed. A joint exercise with the Counter Fraud and Compliance Officer, Customer Services and the Electoral Registration Officer identified almost 800 households where Council Tax Discount had been claimed but it seemed from the Electoral Register details that discount was not appropriate. Claimants were canvassed and asked to confirm the occupiers in their property and their responses were investigated to verify the information supplied. Of these, 68 confirmed that there had been a change in circumstance about which they had not previously told the Council. There were 20 claimants who were found to have responded fraudulently. A further 93 failed to respond. All of these customers received adjusted Council Tax bills i.e. no discount applied.
- 6.4 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. External Auditors carry out reviews of the Council's NFI participation in the exercise.
- 6.5 Data matches for the 2016/17 NFI exercise was received in January 2017 totalling 2704 matches. Investigation work is currently being planned with service managers to fit in with work patterns with a view to completing the exercise within required timescales by December 2017.

- 6.6 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.

7 IMPLICATIONS

7.1 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 and 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.

7.2 Risk and Mitigations

- (a) There is a risk that managers are not aware of fraud issues or due to competing demands on resources, do not engage with fraud prevention.
- The steps in the Counter Fraud Maturity Model should raise awareness across the organisation;
 - Fraud vulnerability assessments should identify areas where there are vulnerabilities which can be escalated if not addressed;
- (b) There is a risk that frauds will not be detected:
- Members need assurance that controls are adequate to detect fraudulent activity. If significant amounts of fraud or error are not found but the fraud detection measures have been utilised properly, this gives assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud.
- (c) There is a risk that managers will not take action against members of staff when fraud is identified for fear of criticism or reputational damage to their service or the Council;
- Managers must have confidence in the investigation process and successful investigations should be communicated;
 - A standard operating procedure should keep managers informed about what steps are appropriate;
- (d) 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 evidence that risk has been identified and is being mitigated.

7.3 Equalities

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

7.4 **Acting Sustainably**

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

7.5 **Carbon Management**

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

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 **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.

8 CONSULTATION

8.1 The Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.

8.2 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

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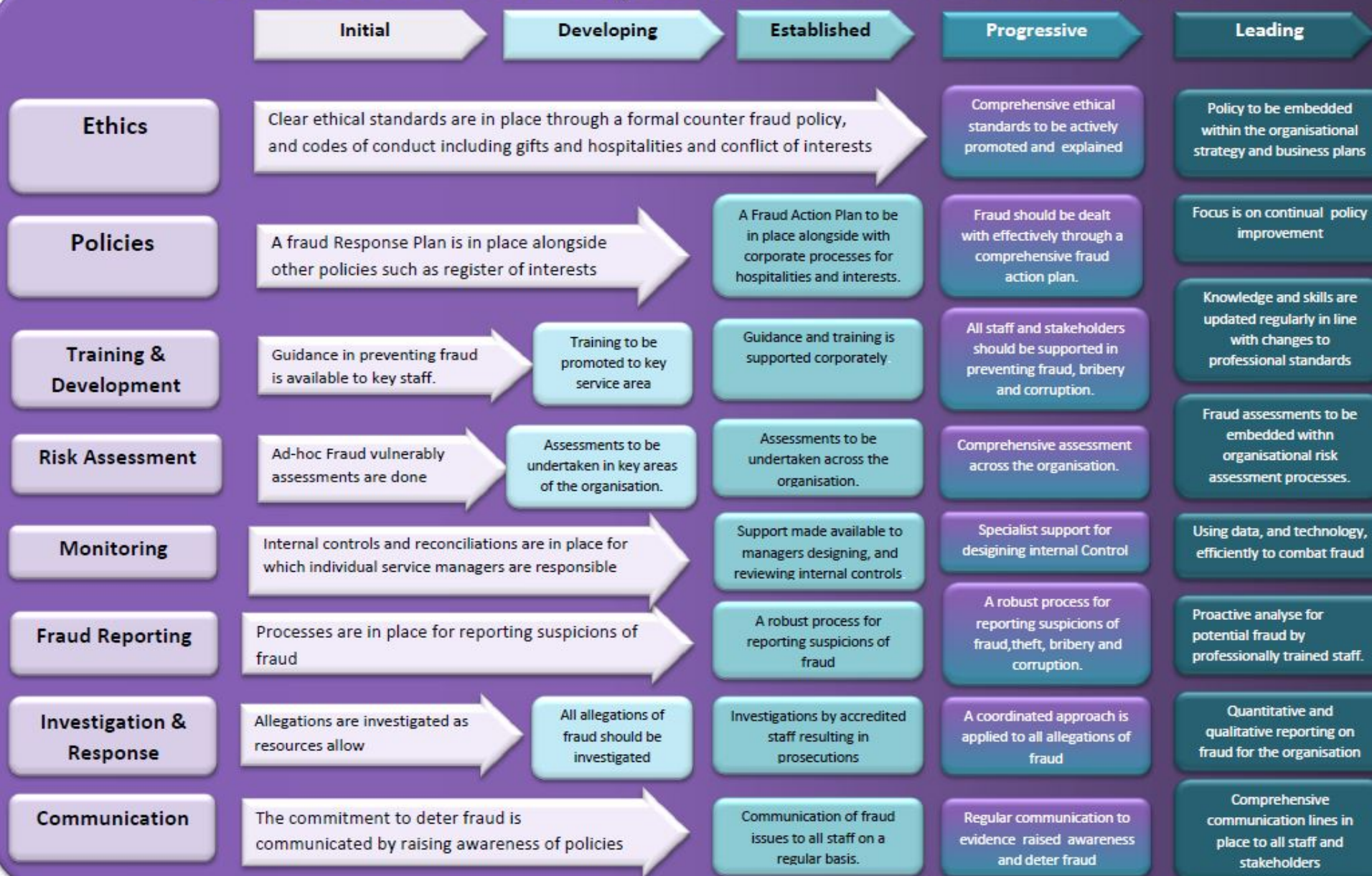
Background Papers: Scottish Borders Council’s Corporate Counter Fraud Policy Statement (August 2015) and Corporate Counter Fraud Strategy (August 2015)

Previous Minute Reference: Scottish Borders Council 27 August 2015; Audit and Risk Committee 30 June 2015 and 28 June 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Gary Smith can also give information on other language translations as well as providing additional copies.

Contact us at gsmith3@scotborders.gcsx.gov.uk

Scottish Borders Council's Progress on the Counter Fraud Maturity Model



based on Scottish Government counter fraud maturity model 2015