

COUNTER FRAUD ANNUAL REPORT 2017/18

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

14 May 2018

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Scrutiny Committee with an update of the Council's fraud prevention, detection and investigation activity and proposes a revised Counter Fraud Policy and Strategy for Council approval.**
- 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 Scrutiny 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.
- 1.4 In 2015 a Counter fraud policy statement, a 3-year counter fraud strategy and associated improvement plan was produced for the Council to refresh its approach to tackling fraud with a refocus on prevention and detection and promotion of anti-fraud culture across the Council, taking account of reducing resources. Annual reports on progress were presented to the Audit and Risk Committee in June 2016 and March 2017.
- 1.5 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 Counter Fraud Annual Report 2017/18 contained herein.
- 1.6 A revised a Counter Fraud Policy statement (Appendix 1) and Counter Fraud Strategy (Appendix 2) is included for consideration and endorsement for full Council approval.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee:**
 - a) **Considers the counter fraud work undertaken to deliver the 2015 strategy;**
 - b) **Notes the content of the Counter Fraud Annual Report 2017/18; and**
 - c) **Endorses the revised Counter Fraud Policy Statement (Appendix 1) and Counter Fraud Strategy 2018 (Appendix 2) for full Council approval.**

3 BACKGROUND

- 3.1 In 2014 the Chief Officer Audit and Risk commissioned a counter fraud review in anticipation of the responsibility for investigating Housing Benefit fraud being transferred to the Department for Work and Pensions. As a result 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 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 Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud vulnerabilities and to monitor counter fraud strategy, actions and resources.

4 COUNTER FRAUD MANAGEMENT REVIEW PROGRESS 2017/18

- 4.1 The initial recommended improvement actions from the Corporate Counter Fraud Review 2014 have been achieved as reported previously. The Corporate Fraud Working Group have previously agreed that having achieved the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' to adopt the Scottish Government's Counter Fraud Maturity Model as a means of self-assessment moving forward (See Diagram A).
- 4.2 The Counter Fraud Working Group has agreed to continue as the Counter Fraud Steering Group with bi-annual meetings allowing operational staff to form ad-hoc working groups for specific tasks.
- 4.3 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.
- 4.4 Diagram A illustrates the Council's current self-assessment against the Counter Fraud Maturity Model based on the examples set out below:
 - 4.4.1 **Ethics**

The Employee Code of Conduct covers all of the areas of ethical behaviour.
 - 4.4.2 **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 and how an investigation should be conducted. This has been endorsed by the Counter Fraud Steering Group and will be publicised to Managers.

4.4.3 **Training and Development**

The Counter Fraud Steering Group has developed a suite of on-line training modules covering Fraud Awareness, The Bribery Act, Conflict of Interests, and Gifts and Hospitalitys. These are now mandatory for new members of staff and will be promoted for relevant staff within service areas. Fraud Awareness Training has been arranged and delivered to staff in Life Long Learning, Neighbourhood Services, and SB Cares.

4.4.4 **Risk Assessments**

Ad-hoc fraud vulnerability assessments using a new methodology have been carried out in areas where assistance has been requested. A toolkit for carrying out assessments has been provided and from April 2018 this will be rolled out across specific Service areas in line with the proposed Fraud Action Plan.

4.4.5 **Monitoring**

Compliance work has been conducted relating to payroll and pensions transactions, including those for SB Cares. This will be extended to other areas in 2018/19.

4.4.6 **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. Posters publicising the e-mail and telephone number have been circulated across Council HQ, Local Depots and SB Cares though the number of incidents reported is still quite low.

4.4.7 **Investigation And Response**

There were 20 investigations in 2017/18 and 5 frauds were identified. Results are detailed at 6.7 below.

4.4.8 **Communications**

The Council's website includes a page developed to promote public use of the fraud hotline and on-line reporting. Communications relating to the awareness of Phishing scams were circulated to staff in response to identified incidents.

- 4.5 A revised a Counter Fraud Policy statement (Appendix 1) and Counter Fraud Strategy (Appendix 2) is included for consideration and endorsement for full Council approval.

5 NEXT STEPS

- 5.1 On approval of the 2018/19 Counter Fraud Strategy, there will be a renewed emphasis on carrying out targeted Fraud Vulnerability Assessments and Fraud Awareness Training with relevant Senior Managers.
- 5.2 The introduction of the Business World ERP System has formalised authorisation levels within the system in line with the scheme of delegation and will introduce new functionality that will allow a more systematic approach to checking and recording fraud. These areas will be checked as part of the compliance work set out within the proposed Fraud Action Plan.
- 5.3 A Report has been produced by Audit Scotland following a significant Fraud incident at Dundee City Council in 2016/17. The recommendations in the report will be adopted where appropriate by Scottish Borders Council.
- 5.4 Plans will be put in place to develop the Business World ERP System to hold a corporate record of Gifts and Hospitalitys and Register of Interests.

6 ANNUAL FRAUD REPORT 2017/18

- 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 2017/18. The last fraud which required to be reported to Audit Scotland was one relating to Non Domestic Rates of £95,755 in 2013/14. Though this is an important performance indicator of how effective the Council's fraud prevention and detection measures are, this report includes all known frauds.
- 6.2 The National Fraud Initiative (NFI) is a series of bi-annual exercises run by the Cabinet Office and Audit Scotland to identify or prevent fraud and error by matching electronic data held by public bodies. Participating bodies are required to investigate data discrepancies within a timescale and report back on any savings.
- 6.3 The main NFI area where savings have been identified relates to Council Tax Single Person Discount. The exercise listed 1,703 matches after cleaning and sifting of the data 129 cases were identified as requiring investigation. There were:-
- 53 cases where Council Tax discount was being claimed fraudulently or in error;
 - 10 cases where there was insufficient evidence to identify if a fraud had occurred;
 - 66 cases which when investigated, were found to be correctly claiming discount;
- 6.4 A saving in 2017/18 of £37,523 was identified. This is a benchmarking figure up to 31 March 2018 made up of immediate cashable savings of £23,382 with an ongoing annual saving of £14,140.
- 6.5 The reduced level of saving in 2017/18 (compared to the 2016/17 NFI exercise savings of £86,000) can be attributed to:-
- NFI is normally completed every second year; however, on this occasion, the Council Tax exercise has been run in concurrent years. Therefore the savings relate to a shorter time period; and
 - The lower number of matches allowed a change in methodology away from a canvas to specific investigations which has given more accurate results.
- 6.6 Other NFI work resulted in the following:-
- Housing Benefit overpayments of £20,536 which is being recovered.
 - Checks on Payroll, Blue Badge, Licencing and Residential Care identified no fraud cases.
- Further Compliance work will be carried out in 2018/19 on Council Tax, Licencing and Payroll.
- 6.7 There were 20 investigations not related to NFI in 2017/18; as a result:-
- A member of staff in a partner organisation funded by SBC resigned following an investigation based on intelligence gathered through SBC's whistle blowing site.
 - Lap top computers thought to have been stolen were discovered having been delivered incorrectly to NHS Borders.
 - A homeless property was recovered from someone who claimed falsely to be homeless.
 - A parent agreed to repay £650 in Educational Maintenance Allowance having failed to provide income information which would have made the pupil ineligible.
 - An investigation secured a successful insurance claim for lost cash £1,278 that had previously been refused by the Council's insurers.

- Three phishing attempts were identified and failed as a result of staff awareness. The loss could otherwise have exceeded £25,000.
 - A forged Blue Badge has been recovered.
 - Police Scotland visited Council HQ to advise staff on protecting their personal property following thefts from desks.
- 6.8 SBC supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 540 Police Scotland address checks in 2017/18. This information is provided under section 29 of the Data Protection Act 1988.
- 6.9 There is one ongoing investigation into direct payments to a social work client and SBC is currently assisting Midlothian Council and the NHS Counter Fraud Services on a further two investigations.

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.
 - The requirement to carry out Fraud Vulnerability Assessments will be promoted with Senior Managers across all service areas.
- (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 staff when fraud is suspected or 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 Fraud Response Plan has been developed and will be publicised to Managers so that Managers are informed about what steps are appropriate if fraud is suspected.
- (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 Counter Fraud Annual Report is evidence that fraud risks have been identified and are 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 Service Director 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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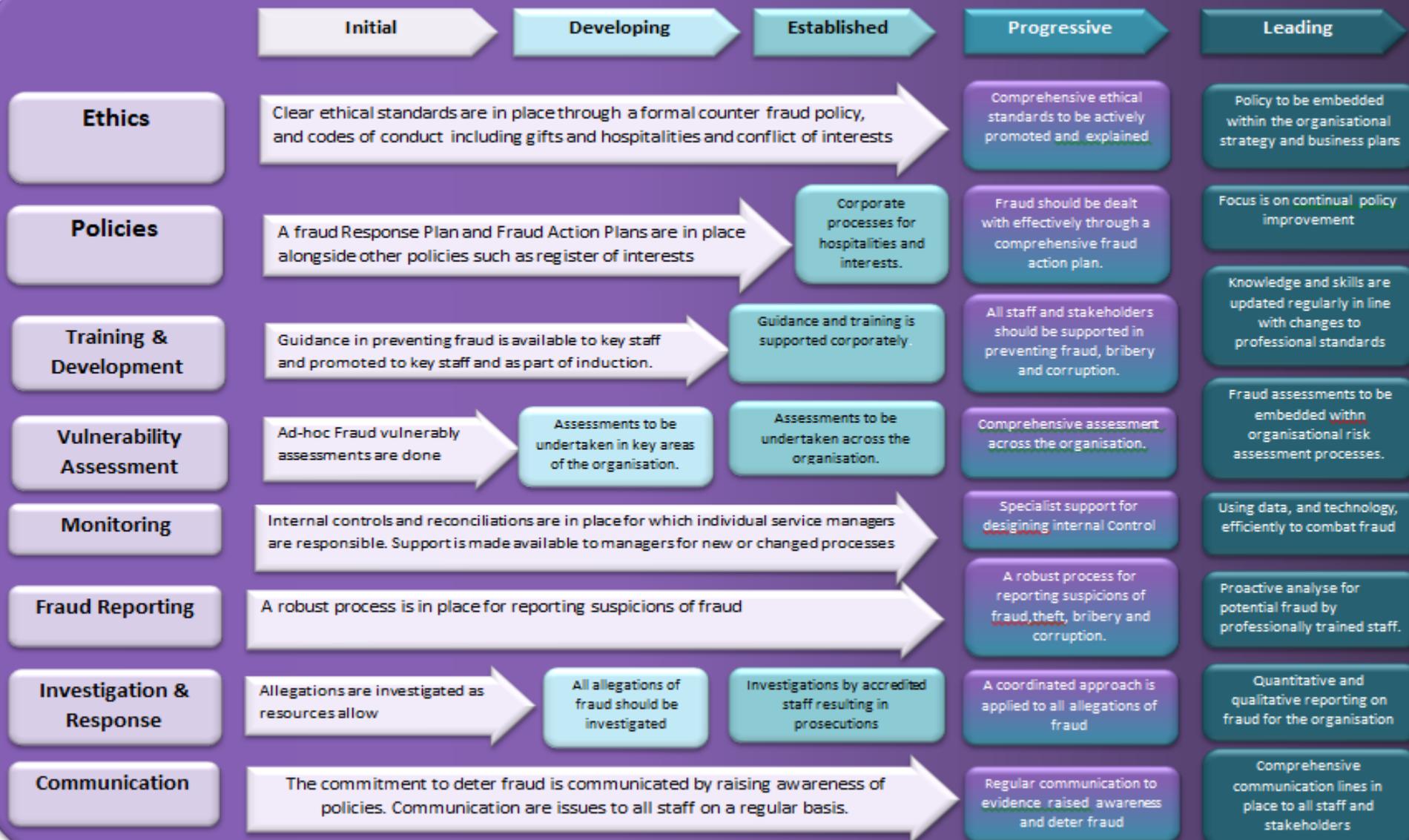
Background Papers: Scottish Borders Council’s Counter Fraud Policy Statement and Counter Fraud Strategy

Previous Minute Reference: Scottish Borders Council 27 August 2015; Audit and Risk Committee 28 June 2016 and 28 March 2017

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 2017/18



based on Scottish Government counter fraud maturity model 2015