
NATIONAL PERFORMANCE REPORT BY AUDIT SCOTLAND

Report by Chief Financial Officer

AUDIT AND SCRUTINY COMMITTEE

25 September 2018

1 PURPOSE AND SUMMARY

- 1.1 **To review the Accounts Commission's report (March 2018) on a significant fraud at Dundee City Council in 2016/17 and consider any implications for Scottish Borders Council.**
- 1.2 The Accounts Commission report prepared by Audit Scotland highlights that it is the responsibility of Management to ensure that controls are in place and that these will be reviewed by External Audit. The Accounts Commission and Audit Scotland national reports are published which are designed to share best practice and lessons learned.
- 1.3 Scottish Borders 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.
- 1.4 Section 4 of this report compares the Accounts Commission's findings in relation to Dundee City Council with the processes, procedures and practices at Scottish Borders Council to provide assurance to this Committee.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee;**
 - (a) **gains assurance that Scottish Borders Council is aware of the issues that the Accounts Commission has highlighted and has controls in place; and**
 - (b) **acknowledges that Scottish Borders Council has adopted the Scottish Government's Fraud Maturity model as a means of self-assessment and will continue to develop counter fraud measures under the direction of the Corporate Fraud Steering Group in line with the Council's Corporate Fraud Policy and Strategy.**

3 BACKGROUND

- 3.1 The Accounts Commission published a report in March 2018 "2016/17 Audit of Dundee City Council: Report of a significant fraud" prepared by Audit Scotland. A summary of the report is set out below which is designed to share best practice and lessons learned.
- 3.2 In 2016/17 Dundee City Council (DCC) discovered a complex long term fraud which was being perpetrated by a member of staff who embezzled £1.65M over a period from August 2009 to May 2016.
- 3.3 The fraud was committed by an IT specialist with over 30 years' experience and was able to use his detailed knowledge of DCC's systems and unrestricted access to several systems to remain undetected for a considerable period of time.
- 3.4 This allowed him to insert 57 false invoices purporting to be from existing large construction suppliers. He was able to set payment details on those invoices to bank accounts which were under his control. The fraudulent data was inserted into the interface flat files which the member of staff edited manually while moving them between directories.
- 3.5 The false invoices appeared in the financial systems from two sub-systems, the main one being a bespoke construction system which is similar to Scottish Borders Council's Servitor system, and the second one is Tranman (Civica) which is a fleet management system that is also used by Scottish Borders Council.

4 SUMMARY OF ACCOUNTS COMMISSION REPORT FINDINGS

The details set out below compares the accounts commission's findings in relation to Dundee City Council with the processes, procedures and practices at Scottish Borders Council to provide assurance to this committee.

	Dundee City Council (DCC)	Scottish Borders Council (SBC)
4.1	There was insufficient division of duties specifically in the system administration roles.	Good segregation of duties within Tranman, Servitor and Business World systems. Specifically, the controls on access to payment details within Business World system are strong.
4.2	Reconciliations were not effective or not carried out.	Good reporting and reconciliation on the Servitor system interface but it does require monitoring. Reconciliation is not robust on the Tranman system. Compliance checking is planned in the action points mentioned at 5.1 below.
4.3	Procedures were not documented.	Systems support staff have a good level of understanding of the processes but they are not well documented. This is scheduled as part of the ongoing Business World system development work (Milestone 7).
4.4	Budget monitoring was not carried out or was not effective.	Budget Monitoring reports are presented to Executive Committee on a quarterly basis.
4.5	A Fraud Response Plan is required.	There is a Fraud Response Plan that incorporates the good practice identified in the Accounts Commission's

report. Work is ongoing to raise awareness of how to respond to suspected fraud.

- 4.6 Assessment of vulnerabilities should be carried out. Counter Fraud Strategy (2015) adopted the Scottish Government's Fraud Maturity model and members of staff are carrying out Fraud Vulnerability Assessments in key services areas. These are included in the action points mentioned at 5.1 below.
- 4.7 Fidelity Insurance is essential. There is an insurance policy in place and there is compliance with the conditions in that policy.
- 4.8 Integrity groups should be established. The functions described in the Accounts Commission's Report are provided by an officer Corporate Fraud Steering Group.

5 NEXT STEPS

- 5.1 A detailed review of the interface between Tranman, Servitor and Business World systems has been carried out in the light of the Accounts Commission's recommendations and a short list of action points will be implemented.
- 5.2 Fraud vulnerability assessments have been carried out in the areas of Fleet Management and SB Contracts. Compliance testing will be carried out to ensure that controls are effective.
- 5.3 Fraud awareness training has been arranged for Managers in Fleet Management service and SB Contracts as part of the ongoing programme across the Council.

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 and Compliance Officer (1 FTE) within the Audit & Risk service. There are no significant additional costs anticipated as a result of these recommendations.

6.2 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.
- Management and 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 Fraud Response Plan has been provided so that managers are 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 other inspection bodies as inadequate.
- This report is evidence that risks have been identified and are being 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 Officer Audit & Risk, 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

David Robertson
Chief Financial Officer

Signature

Author(s)

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Background Papers: "2016/17 Audit of Dundee City Council: Report of a significant fraud 2016/17" Accounts Commission (March 2018)

Previous Minute Reference: Audit and Scrutiny Committee 26 June 2018

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.

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