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## **COUNTER FRAUD ANNUAL REPORT 2018/19**

**Report by Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**13 May 2019**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 This report provides the Audit and Scrutiny 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 2019.**
- 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 2018, a revised Counter Fraud Policy statement and a 3-year Counter Fraud Strategy were endorsed by this Committee and approved by the Council to continue to refine its approach to tackling fraud with a focus on prevention and detection and promotion of anti-fraud culture across the Council, taking account of reducing resources. This is the first annual report on progress to be presented to the Audit and Scrutiny Committee.
- 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 Annual Fraud Report 2018/19 contained herein.

#### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
  - (a) Considers the counter fraud work undertaken in support of the Council's counter fraud policy and strategy; and**
  - (b) Notes the content of the Counter Fraud Annual Report 2018/19 that outlines the outcomes.**

### **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 or corruption. The Council's Counter Fraud Policy states the roles and responsibilities in tackling fraud; the primary responsibility for the prevention, detection and investigation of fraud rests with Management
- 3.2 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.
- 3.3 The Corporate Fraud Steering Group, which has representatives from across the Council's Services, agrees and monitors the implementation of counter fraud improvement actions, supported by the Corporate Fraud and Compliance Officer within the Audit & Risk service, the post-holder being an Accredited Counter Fraud Specialist.
- 3.4 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.
- 3.5 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.
- 3.6 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 and demonstrates effective financial stewardship and strong public financial management.
- 3.7 In 2018, a revised Counter Fraud Policy statement and a 3-year Counter Fraud Strategy was endorsed by this Committee and approved by the Council. Refinements to the Council's approach to tackling fraud include a focus on enhancing fraud prevention and detection to improve its resilience to the threat of fraud and corruption.

### **4 COUNTER FRAUD ACTIVITY 2018/19**

- 4.1 The Corporate Fraud and Compliance Officer, following the approval of the revised Counter Fraud Policy statement and Counter Fraud Strategy in June 2018, delivered Fraud Awareness training for Service Managers and carried out targeted Fraud Vulnerability Assessments using a new methodology and toolkit with 134 Service Managers during the course of the year. This included Directorates and Services of Assets & Infrastructure, Customer & Communities, Regulatory Services, Finance IT & Procurement, and Human Resources. In addition, the Fraud Awareness training was delivered to Managers within SB Cares as part of the Council's support services provision to the adult social care ALEO. The Fraud Awareness training session is now part of the HR training programme with regular sessions throughout the year.
- 4.2 A suite of on-line training modules covering Fraud Awareness, The Bribery Act and Anti-Money Laundering have been promoted for staff within relevant Service areas. Fraud Awareness is mandatory for new members of staff. The uptake of these modules is as follows:-

<u>Resource</u>	<u>Total</u>	<u>2018/19</u>
An Introduction to the Bribery Act 2010	60	34
Anti-Money Laundering	36	20
Fraud Awareness	601	240

- 4.3 The Corporate Fraud and Compliance Officer liaised with Internal Audit on an on-going basis to ensure fraud risk is considered in every assurance audit. Further to this, the opportunity was taken to combine a counter fraud controls assessment with audit assurance work on Licensing, Revenues (Council Tax and Business Rates) and also counter fraud compliance work with audit assurance work on Business World ERP System Key Internal Controls relating to payroll and pension payments.
- 4.4 The Corporate Fraud and Compliance Officer produced a report, presented by the Chief Financial Officer, which compared the findings in relation the Accounts Commission report (March 2018) on a significant fraud at Dundee City Council in 2016/17 with the processes, procedures and practices at Scottish Borders Council to provide assurance.
- 4.5 A Fraud Response Plan has been written by the Corporate Fraud and Compliance Officer 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.
- 4.6 The Council supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 536 Police Scotland address checks in 2018/19, broadly equivalent in number to previous years. This information is provided under section 21 (paras 2 & 3) Data Protection Act 2018.
- 4.7 The Corporate Fraud and Compliance Officer has dealt with enquiries from the Council's website page or the anonymous telephone reporting line which are available to staff or the public for whistleblowing purposes, though the number of incidents reported is still low.
- 4.8 The Corporate Fraud and Compliance Officer is a member of the Scottish Local Authority Investigators Group (SLAIG) and represents Scottish Borders Council at SLAIG's quarterly meetings, therefore sharing best practice across Councils and the wider public sector and ensuring knowledge of emerging fraud risks and issues is up to date.
- 4.9 The Counter Fraud Steering Group held bi-annual meetings to consider and agree counter fraud improvement actions to be led by the Corporate Fraud and Compliance Officer and to monitor their implementation. This forum is chaired by the Chief Officer Audit & Risk. Any lessons learned from identified incidents shared across Councils were discussed and actions agreed as appropriate.
- 4.10 The Corporate Fraud Steering Group previously agreed, 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. Diagram A illustrates the Council's current self-assessment against the Counter Fraud Maturity Model based on the counter fraud activity during the year.

## **5 COUNTER FRAUD NEXT STEPS 2019/20**

- 5.1 The Corporate Fraud & Compliance Officer will deliver Fraud Awareness Training for Service Managers and carry out targeted Fraud Vulnerability Assessments using a new methodology and toolkit for the remaining Directorates and Services including Social Care, Children & Young People.
- 5.2 The introduction of new functionality within the Business World ERP System has allowed a more systematic approach to checking fraud. A set of automated continuous compliance checks will be developed.
- 5.3 A review will be undertaken of associated policies, procedures and guidelines across the Council to ensure their continued relevance and effectiveness. (The Counter Fraud Strategy states: "As a minimum the policy framework will include: Counter Fraud Policy; Whistleblowing Policy; Anti Money Laundering Policy; Anti-Bribery & Corruption Policy; Gifts & Hospitality Policy and register; Conflict of Interest Policy and register; Codes of Conduct and Ethics; Information Security Policy; and Cyber Security Policy.")
- 5.4 Plans will be put in place to develop a central corporate record of Gifts and Hospitalities and Register of Interests. In the meantime, the current departmental process will be refreshed and managers will be asked to undertake a review.
- 5.5 The Council will continue to participate in the National Fraud Initiative (NFI) which 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.
- 5.6 The Fraud Response Plan will be publicised to Managers to assist them to know what options are available to them and how an investigation should be conducted.

## **6 ANNUAL FRAUD REPORT 2018/10**

- 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 2018/19. 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 There were 15 investigations concluded in 2018/19 none of which identified any serious fraud or resulted in a prosecution.
- 6.3 Email phishing attempts continue though the number of attempts are not recorded; however, senders are routinely blocked and reported to the Council's IT suppliers CGI.
- 6.4 An investigation into direct payments to a Social Work client was completed; it was found that there had been no harm to the client and no financial loss to the Council but there had been a deception and proper procedure had not been followed. New processes have been introduced and a subsequent audit found these processes to be satisfactory.
- 6.5 There was a joint investigation between SBC and NHS Counter Fraud Services on a case relating to concerns over grants issued by both organisations to a third party charitable organisation. These concerns were answered and no further action was required.

## **7 IMPLICATIONS**

### **7.1 Financial**

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

### **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 continue to 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 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 Fraud Steering Group has been consulted on this report and any comments received have been incorporated in the final report.

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

8.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council and the Communications team have been consulted on this report and any comments received have been incorporated in the final report.

### Approved by

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

**Signature .....**

### Author(s)

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**Background Papers:** Scottish Borders Council's Counter Fraud Policy Statement and Counter Fraud Strategy

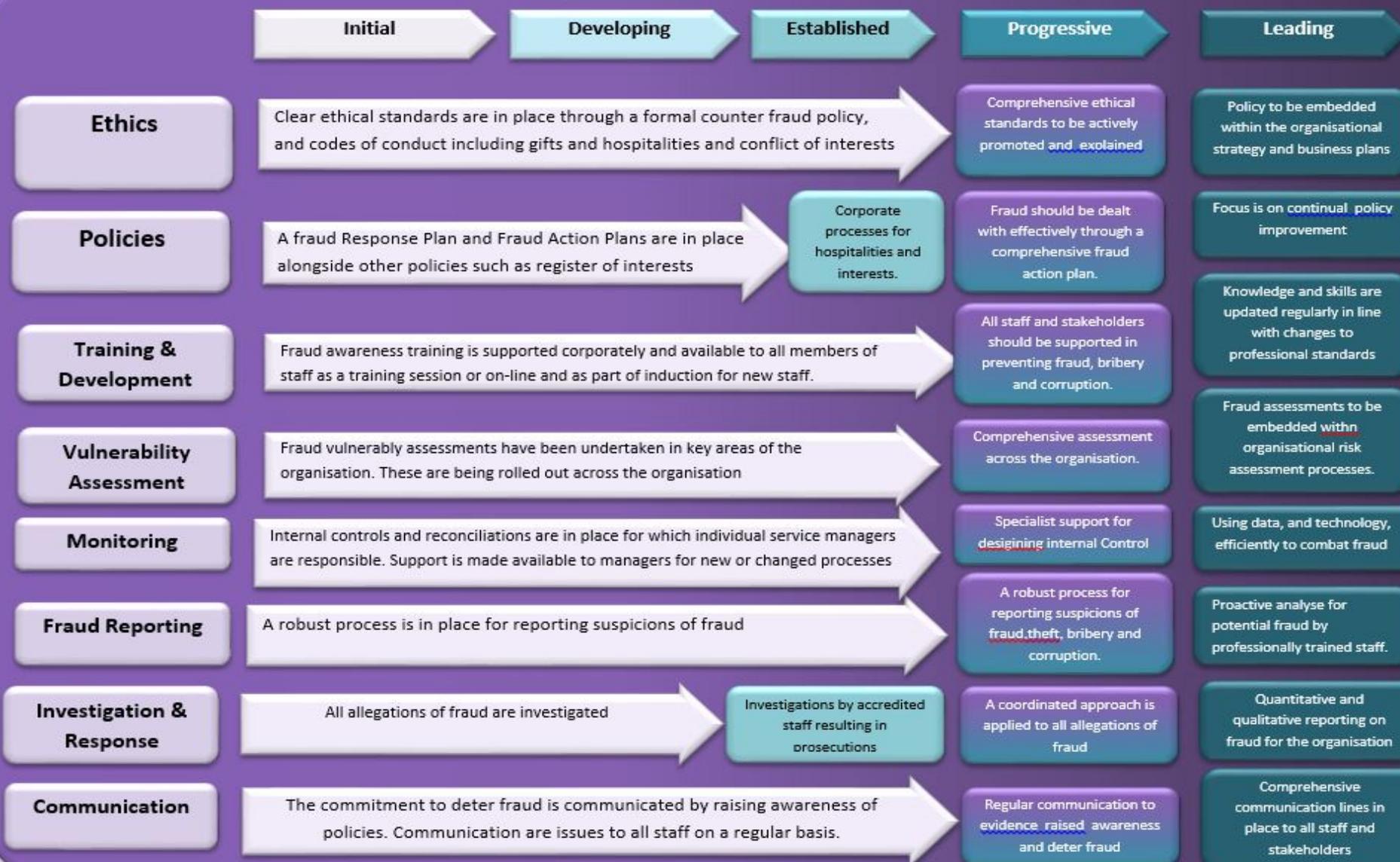
**Previous Minute Reference:** Audit and Scrutiny Committee 14 May 2018

**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.

Contact us at [gsmith3@scotborders.gov.uk](mailto:gsmith3@scotborders.gov.uk)

Diagram A

## Scottish Borders Council's Progress on the Counter Fraud Maturity Model 2018/19



*based on Scottish Government counter fraud maturity model 2015*