
COUNTER FRAUD ANNUAL REPORT 2019/20

Report by Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

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 2020.**
- 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 second annual report on progress to be presented to the Audit and Scrutiny Committee.
- 1.5 Total Savings (Overpayments and Estimated Savings) of £346,725 from fraud and error were identified in the National Fraud Initiative (NFI) 2018/2019 exercise, as at 4 April 2020.
- 1.6 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 outcomes contained within this report.

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 outcomes of the counter fraud activity 2019/20.**

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 (Integrity Group) is a forum which has representatives from across the Council's Services to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, corruption, theft and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice. It is 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.

4 COUNTER FRAUD ACTIVITY 2019/20

- 4.1 There were six sessions of Fraud Awareness Training planned in 2019/20. Only three proceeded with cancellations due to SB Cares re-integration to the Council, Peebles High School fire, and Covid-19.
- 4.2 The Audit and Scrutiny Committee requested, following the consideration of the 2018/19 report, that the fraud e-Learning package be made compulsory for all staff. The fraud e-Learning package has been re-written to refresh the information and make it appropriate to all staff. The new module is available; it is included in the Induction programme for new starts. The training module on Business World system might better enable an approach for e-learning targeted at specific groups.

The uptake of these modules is as follows:

<u>E-Learning Resource</u>	<u>2019/20</u>	<u>2018/19</u>	<u>Total</u>
An Introduction to the Bribery Act 2010	35	34	95
Anti-Money Laundering	27	20	63
Fraud Awareness	523	240	1124

- 4.3 As part of the Corporate Fraud programme of work for 2019/20, a fraud vulnerability assessment was carried out in Peebles High School. The one for SB Contracts will need to be rearranged.
- 4.4 The Council supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 474 Police Scotland address checks in 2019/20 (536 in 2018/19). This information is provided under section 21 (paras 2 & 3) Data Protection Act 2018. The Corporate Fraud and Compliance Officer is a member of the Council's Serious and Organised Crime and Contest Officers Group.
- 4.5 The Corporate Fraud and Compliance Officer continues to deal with enquiries from the Scottish Borders Council website page "Report fraud online" or the anonymous telephone reporting line or secure email address which are all available to staff or the public for whistleblowing purposes. Initial fact-finding responses are followed by intelligence gathering and investigations. If substantiated, appropriate action is taken in accordance with the Council's policies and procedures, such as disciplinary or contract management. Where criminal activity is suspected, referrals will be made to Police Scotland; no criminal investigations are ongoing. The number of whistleblowing referrals remains in the low single figures annually.
- 4.6 The Corporate Fraud and Compliance Officer is a member of the Scottish Local Authority Investigators Group (SLAIG) to represent Scottish Borders Council. He attends SLAIG's quarterly meetings as a forum for sharing best practice across Councils and the wider public sector, thus ensuring his knowledge of emerging fraud risks and issues is up to date.
- 4.7 The Corporate Fraud Steering Group (Integrity Group) held bi-annual meetings to consider and agree counter fraud improvement actions and to monitor their implementation. This forum is chaired by the Chief Officer Audit & Risk. Any lessons learned from identified incidents shared by other Councils were discussed and actions were agreed as appropriate. This included a presentation by DCI Richard Hutton from Police Scotland's Counter Corruption Unit that highlighted the emerging risks to Local Authorities and some key lessons across Scotland.
- 4.8 The Council continues to meet the minimum policy framework set out in the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)'. The policies refreshed during the period include the Anti-Money Laundering Policy and Code of Conduct for Employees. CGI are in the process of re-writing the Cyber Security Policy following the recent appointment of a member of staff with that responsibility.
- 4.9 The Diagram A illustrates the Council's current self-assessment against the Counter Fraud Maturity Model, used as a best practice framework for self-assessment purposes, taking into account the counter fraud activity during the year. There is no significant change during 2019/20.
- 4.10 Scottish Borders Council continues to participate in the National Fraud Initiative (NFI) which is a UK wide counter fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error. The Chief Officer Audit & Risk acts as the Council's Key Contact for NFI. The Corporate Fraud and Compliance Officer has coordinated the submission of the required data sets from various Council systems and responded to the data matches received with input from relevant Services across the Council.

5 OUTCOMES OF COUNTER FRAUD ACTIVITY 2019/20

- 5.1 All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no frauds greater than £5,000 during 2019/20. 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.
- 5.2 There were 15 investigations not linked to NFI that were concluded in 2019/20 (15 in 2018/19). None of these resulted in a prosecution or identified any serious fraud. Of these, 7 cases were referred for further action by others (e.g. Human Resources, Adult Protection, Department for Work and Pensions), 5 resulted in the withdrawal of service, and no action was necessary in 3 cases.
- 5.3 Email phishing continues to be the most frequent method of attempted fraud. The actual number of phishing emails are not recorded; however, senders are routinely blocked and reported to the Council's IT provider, CGI. New measures to quarantine suspicious emails have been introduced and there have been no recorded instances of any loss to the Council due to phishing. Staff are regularly reminded of the dangers posed by phishing.
- 5.4 Mandate Fraud is the second most attempted fraud against Scottish Borders Council whereby fraudsters send forged emails or letters requesting changes to bank details and purporting to be from suppliers. Processes have thus far prevented any financial loss from this type of attempted fraud.
- 5.5 The outcomes of Scottish Borders Council's participation in the National Fraud Initiative 2018-2019 (as at 04.04.2020) are as follows:-

Type	Data Matches	Matches Reviewed	Fraud or Error Detected	Outcome (overpayment)	Estimated Savings	Total Savings
Council Tax Discount	1168	1168	340	£81,566	£162,637	£244,203
Housing Benefit	517	495	10	£17,933	£6,637	£24,570
Payroll and Pensions	472	80	1	£708	£5,791	£6,499
Blue Badge	154	2	0			
Residential Care Homes	29	29	3	£18,824	£23,615	£42,439
Personal Budgets	58	40	0			
Council Tax Reduction	641	197	0			
Creditors	2437	1778	11	£29,014		£29,014
Total						£346,725

- 5.6 The amount of Fraud and Error identified for Council Tax Discount is not an indication of increased levels of fraud. It is primarily due to Customer Services taking a canvas of Council Tax Discounts in February 2019 and the associated checking to determine whether these discounts were claimed legitimately.

6 COUNTER FRAUD NEXT STEPS 2020/21

- 6.1 The Corporate Fraud & Compliance Officer will continue to deliver Fraud Awareness Training for Service Managers and carry out Fraud Vulnerability Assessments where appropriate. Where possible, these are linked to scheduled work included in the Audit Plan.

- 6.2 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.
- 6.3 Plans to develop a central corporate record of Gifts and Hospitalities and Register of Interests as reported in 2018/19 have not progressed as anticipated. In the meantime, the current process will be refreshed and Managers will be asked to undertake a review thereof.
- 6.4 The Council will continue to participate in the National Fraud Initiative. Data for the 2020 exercise will be provided to the Cabinet Office and Audit Scotland from October 2020 to December 2020. The timetable and required datasets, some of which will be new and are likely to be associated with the economic support activity in response to Covid-19, are expected to be published in June 2020.

7 IMPLICATIONS

7.1 Financial

Effective internal control systems are designed to prevent and detect fraud and this contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The Corporate Fraud and Compliance Officer 1.0 FTE post is included within the Audit & Risk service budget; the current postholder on his request, and in line with HR policy, is working reduced hours 0.71 FTE. 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

The process of identifying fraud risks is based on the principles of the Corporate Risk Management Policy and Framework. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Corporate Fraud Steering Group (Integrity Group), and regular communications and training are offered by the Corporate Fraud and Compliance Officer. Oversight is provided by the Audit and Scrutiny Committee.

7.3 Integrated Impact Assessment

Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation. This is a routine good governance report for assurance purposes, not a new or revised policy or strategy for decision and, as a result, completion of an integrated impact assessment is not an applicable consideration.

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 a 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 have been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.
- 8.2 This report has been presented to the Corporate Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 8.3 The Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated.

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: Audit and Scrutiny Committee 13 May 2019

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