# COUNTER FRAUD ANNUAL REPORT 2020/21

**Report by Chief Officer Audit & Risk**

## AUDIT AND SCRUTINY COMMITTEE

## 10 May 2021

**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 2021.**

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 Integrity Group. 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. Counter fraud activity in line with the Policy is outlined in this annual report.

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 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 2020/21.**

## 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 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 policy framework, agrees and monitors the implementation of improvement actions, raises awareness as a method of prevention, and performs self-assessments against best practice. It is supported by the Corporate Fraud and Compliance Officer.

3.4    Internal Audit is required to give independent assurance on the efficacy 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 risks 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 2020/21

4.1    The planned counter fraud activity by the Corporate Fraud & Compliance Officer was adversely affected during the year due to the ongoing response to the Covid-19 pandemic. Most notably the Corporate Fraud & Compliance Officer was deployed to a critical service full time from the end of May to the middle of August 2020, and part-time thereafter until his retirement in early December 2020.

4.2    Business continuity priority was given to the Council's participation in the National Fraud Initiative (NFI) during the emergency response and recovery phases. NFI 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. Prior to December 2020, the Corporate Fraud and Compliance Officer coordinated the submission of the required NFI data sets from various Council systems in accordance with the notified timetable and specifications, with input from relevant staff and managers in Services across the Council. As an interim measure, the Principal Internal Auditor was granted access to the NFI portal and co-ordinated the submission of the few remaining NFI data sets in January 2021 in accordance with the notified timetable and specifications; these being new datasets associated with the economic support activity in response to Covid-19.

4.3　In response to previous year's engagement with the Corporate Fraud & Compliance Officer, Management in Roads and Instructure introduced the requirement for staff to complete the fraud awareness and gifts, hospitality and interests eLearning modules, reflecting the higher risk in the Service that contracts with and spends tens of millions of pounds with internal and external contractors. This has resulted in over 80% completion of both these modules to date. In response to Internal Audit recommendations, a new procurement framework for SBc Contracts is progressing well to comply with the Council's procurement procedures.

4.4　In response to a recommendation by the Audit and Scrutiny Committee at its meeting on 28 September 2020, the Integrity Group of officers considered all three Audit Scotland counter fraud reports as part of their counter fraud role and responsibilities, and carried out an assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks. The findings of the Integrity Group's assessment of Scottish Borders Council's counter fraud controls and necessary actions to enhance the Council's resilience to fraud were reported to the Audit and Scrutiny Committee on 8 March 2021, and were acknowledged and endorsed by the committee.

4.5　The Council supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 428 Police Scotland address checks in 2020/21 (474 in 2019/20). This information is provided under section 21 (paras 2 & 3) Data Protection Act 2018.

4.6　The recent Internal Audit review of key controls within the Business World ERP System confirms reasonable assurance can be placed on the system-based controls and associated workflows, including separation of duties, relating to Masterfile records and transactions with suppliers and customers, and current and former employees.

4.7　The efficacy of the Council's arrangements for the prevention, detection and investigation of fraud and corruption is predicated on the ongoing awareness of and compliance with the approved policies, procedures and guidelines by staff when carrying out their duties and on the vigilance of staff in identifying and reporting any irregularities.

## 5　OUTCOMES OF COUNTER FRAUD ACTIVITY 2020/21

5.1　All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no known frauds greater than £5,000 during 2020/21 that resulted in loss to the Council; however there were many attempted frauds relating to business support grant funding administered on behalf of the Scottish Government, that were prevented through the vigilance of staff checking the eligibility and supporting evidence.

5.2　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. Measures to quarantine suspicious emails are in place. Staff are regularly reminded of the dangers posed by phishing.

5.3　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. Payments team and other staff are aware of increased risk and are extra vigilant to prevent any financial loss from this type of attempted fraud.

# 6    COUNTER FRAUD NEXT STEPS 2021/22

6.1    Continue to participate in the National Fraud Initiative 2020/2021. Data matches will be reviewed by relevant staff and managers in Services across the Council, as permitted by available time and resources.

6.2    Review the people planning options for counter fraud resources including recruitment to the Corporate Fraud & Compliance Officer post.

6.3    The Integrity Group will monitor the implementation of the improvement actions arising from the Counter Fraud Controls Assessment, carry out a review of the minimum policy framework for managing the risk of fraud, and raise fraud awareness as a method of prevention.

6.4    Progress plans to incorporate the fraud awareness, bribery, and gifts, hospitality and interests eLearning modules within the training matrices for Services across the whole Council to enable an approach for e-learning targeted at specific groups.

# 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 budget. 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 Integrity Group. 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 Integrity Group has 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 & Communications, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated.

**Approved by**

**Jill Stacey**                                  Signature ………………………………….
**Chief Officer Audit & Risk**

**Author(s)**

| Name | Designation and Contact Number |
|------|--------------------------------|
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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 23 June 2020

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

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