
COUNTER FRAUD ANNUAL REPORT 2021/22

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

27 June 2022

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 2022.**
- 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 2021, a revised Counter Fraud Policy statement and a 3-year Counter Fraud Strategy 2021-2024 were endorsed by this Committee and approved by the Council. This will enable the Council to continue to refine its approach to tackling fraud, taking account of reducing resources, with a focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud.
- 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

- 3.1 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 2021/22.**

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, corruption and crime. The Council at its meeting on 16 December 2021 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy 2021-2024, which had been endorsed by the Audit and Scrutiny Committee on 22 November 2021.
- 3.2 Establishing and maintaining a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption or crime and the leadership part played by the Strategic Leadership Team and Senior Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 3.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management. 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, chaired by the Chief Officer Audit & Risk. 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.
- 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. The Internal Audit Annual Plan 2022/23, approved by the Audit and Scrutiny Committee on 14 March 2023, includes an audit of the Council's Counter Fraud Controls and Whistleblowing Arrangements.
- 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 2021/22

- 4.1 The Council's Counter Fraud Policy Statement and Counter Fraud Strategy 2021-2024 have been reviewed and refreshed to reflect the counter fraud developments that have been introduced during the last 3 years and the change in provision of resources. These were endorsed by the Audit and Scrutiny Committee on 22 November 2021 and approved by Scottish Borders Council on 16 December 2021. The Counter Fraud Policy Statement outlines the key objectives and states the roles and responsibilities in tackling fraud. The Counter Fraud Strategy 2021-2024 outlines the approach that will be adopted within Scottish Borders Council to tackle fraud, in support of the Counter Fraud Policy Statement. It is based upon the national counter fraud standard CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption' published in December 2014.

- 4.2 Quarterly meetings of the Integrity Group were held during the year 2021/22 to undertake its remit to improve the Council's resilience to fraud, corruption, theft and crime. The Integrity Group is an officer forum, chaired by the Chief Officer Audit & Risk, which has 2 Director representatives from SLT and representatives from HR, Finance, Legal, IT, and Procurement to support Management to fulfil their responsibilities in tackling fraud.
- 4.3 The Integrity Group considered the Audit Scotland report 'Fraud and Irregularity Update 2020/21' on 18 October 2021 to determine any Management Actions required in response for improvement and assurance purposes. It noted the similarities in the fraud risks reported in 2020 and 2021 by Audit Scotland. It revisited the Counter Fraud Controls Assessment carried out during 2020/21 and received a progress update on the Action Plan from each of the Action Owners, along with further information on additional practices that have been introduced. The Counter Fraud Controls Assessment 2021/22 and associated Action Plan were presented to the Strategic Leadership Team on 3 February 2022 and then to the Audit and Scrutiny Committee on 14 February 2022.
- 4.3 Business continuity priority was given to the Council's participation 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 reduced resources and activity was regularly reported to the Response & Recovery Board as part of business continuity during the pandemic. All NFI data sets were submitted on time and in full. Data match investigations by Services were significantly impacted due to staff deployment during the pandemic to response activity, including payment of other Scottish Government grants.
- 4.4 The Audit Scotland report 'Fraud and Irregularity Update 2020/21' was disseminated to staff across the Council, with a request that relevant fraud risks be assessed and fraud risk mitigation actions be implemented as appropriate.
- 4.5 The Chief Officer Audit & Risk recorded a video as part of Commercial Awareness Week 15-19 November 2021 on the risks of Fraud, Bribery and Corruption related to Contract Management to outline what managers need to be aware of when working with suppliers.
- 4.6 The Council supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 304 Police Scotland address checks in 2021/22 (428 in 2020/21). This information is provided under section 21 (paras 2 & 3) Data Protection Act 2018.
- 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 2021/22

- 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 2021/22 that resulted in loss to the Council. There were no reported outcomes from the National Fraud Initiative 2020-2021 exercise; there is one discrepancy related to Pensions which is currently under investigation to ascertain whether this is the result of error or fraud.
- 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 2022/23

- 6.1 Plan for and participate in the next 2-year exercise National Fraud Initiative 2022/2023. Data matches will be reviewed by relevant staff and managers in Services across the Council, as permitted by available time/resources.
- 6.2 The Integrity Group will continue to 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.
- 6.3 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 subscription to the National Anti-Fraud Network (NAFN) 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 on behalf of the Strategic Leadership Group. Elected Member oversight is provided by the Audit and Scrutiny Committee.

7.3 Integrated Impact Assessment

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. An Integrated Impact Assessment (IIA) was completed as part of the revised Counter Fraud Policy statement and Counter Fraud Strategy 2021-2024, approved by Council on 16 December 2021. This is a routine good governance report for assurance purposes. Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with appropriate legislation.

7.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist. However, the application of practices associated with the Council's Counter Fraud Policy and Strategy is fundamental to ensuring an effective response to fraud, theft, corruption, or crime. This will make a difference to the UN Sustainable Development Goal 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

7.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 Data Protection Impact Statement

There are no personal data implications arising from the content of this report.

7.8 Changes to Scheme of Administration or Scheme of Delegation

No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in 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 The Strategic Leadership Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, has been consulted on this Report.
- 8.3 The Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

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Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit and Scrutiny Committee 10 May 2021

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