
AUDIT SCOTLAND NATIONAL FRAUD REPORTS 2022

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

12 September 2022

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to make the Audit Committee aware of recently published counter fraud reports by Audit Scotland and the Management Actions required in response for improvement and assurance purposes.**
- 1.2 Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud, taking account of reducing resources, are associated with the Counter Fraud Strategy 2021-2024 that was approved by Council in December 2021.
- 1.3 The purpose of the Integrity Group is to improve the Council's resilience to fraud, theft, corruption, and crime. One way it can achieve that is self-assessing the Council's arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place. This report refers to national fraud reports recently published by Audit Scotland, which set out recommendations for public sector organisations.
- 1.4 Part of the Audit 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.

2 RECOMMENDATIONS

2.1 I recommend that the Audit Committee:

- a) Acknowledges the Audit Scotland National Fraud Reports published in recent months;**
- b) Endorses the tasks being undertaken by the Integrity Group, associated with the recently published counter fraud reports by Audit Scotland, as set out in Action Plans in paragraphs 4.6 and 4.7 of this report; and**
- c) Requests that the Integrity Group reports back to the Audit Committee on its findings and proposed further actions arising from these tasks.**

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, or crime. 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 Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on prevention and detection and promotion of a counter fraud culture across the Council to improve its resilience to fraud, taking account of reducing resources, are associated with the Counter Fraud Strategy 2021-2024 that was approved by Council in December 2021.
- 3.3 The Integrity Group is an officer 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, theft, corruption, 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.
- 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. The Internal Audit Annual Plan 2022/23, approved by the Audit and Scrutiny Committee on 14 March 2022, includes an audit of the Council's Counter Fraud Controls and Whistleblowing Arrangements.
- 3.5 Part of the Audit 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 AUDIT SCOTLAND NATIONAL FRAUD REPORTS 2022

- 4.1 One way to improve the Council's resilience to fraud, corruption, theft and crime is through engaging with national forums to share intelligence, lessons learned and best practice, carrying out a self-assessment of the Council's arrangements and agreeing any appropriate actions to continuously improve the arrangements in place.
- 4.2 The following reports have been published by Audit Scotland in recent months relating to fraud risks and outcomes:
 - [Fraud and irregularity 2021/22 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/fraud-and-irregularity-2021-22) (published 14 July 2022) A summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2021/22.

- [The National Fraud Initiative in Scotland 2022 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk) (published 18 August 2022) The National Fraud Initiative (NFI) is a counter-fraud exercise which aims to prevent and detect fraud. The exercise operates across the UK public sector and includes 132 public bodies in Scotland. The NFI shares and matches data held by public bodies and helps confirm that services and payments are provided to the correct people.

4.3 Key messages in the Fraud and Irregularity 2021/22 report were as follows:

1. The Covid-19 pandemic introduced many challenges for the Scottish public sector. Public Bodies delivered both existing and new services in new working environments. These changes resulted in additional fraud risks for public bodies to manage.
2. New challenges. Despite these new challenges, auditors have found that most bodies have responded well by introducing new systems, procedures, and controls.
3. The Covid-19 pandemic has seen new fraud introduced. For example, fraudsters have targeted the grants to support businesses through the pandemic. Steps have subsequently been taken to reduce fraud and error in these schemes by grant-paying bodies and government.
4. Weaknesses in controls contributed to seven cases of fraud and irregularities totalling over £354,000. During 2021/22, internal control weaknesses contributed to seven cases of fraud and irregularity valued at over £354,000 being identified in public bodies. In comparison, 13 cases of fraud and irregularity valued at £401,500 were identified during 2020/21. Despite many challenges facing public bodies over the past two years because of the Covid-19 pandemic, the value of fraud and irregularity detected remains low compared to the 2021/22 annual Scottish budget of £54 billion.

4.4 The accompanying message for the website publication of the National Fraud Initiative 2020-2021 report states:

Every two years the National Fraud Initiative (NFI) identifies outcomes worth millions in estimated savings to the public sector purse. The 2020/21 NFI exercise in Scotland identified outcomes valued at £14.9 million compared to £15.3 million in 2018/19. This included:

- £4.6 million in reduced or removed council tax discounts
- £1.5 million in occupational pensions not being paid out
- £1.2 million in housing benefit payments stopped or reduced.

The reduction in outcomes could be due to public bodies strengthening their internal controls. Some key data sets from previous exercises were also not included in the latest exercise. And public bodies also said increased pressure on services during the pandemic meant staff had less time available to commit to the NFI.

Antony Clark, Executive Director of Performance Audit and Best Value, said:

“Despite the challenges of the pandemic, public bodies in Scotland continue to show a strong commitment to detecting fraud and error.

At a difficult time for public sector budgets, it’s important that all participating bodies continue to look to maximise their participation in the exercise and act on areas of improvement identified by local auditors.”

- 4.5 This provides an opportunity for the Integrity Group to consider the recently published counter fraud reports by Audit Scotland and determine any Management Actions required in response for improvement and assurance purposes.
- 4.6 The Recommendations arising from the Fraud and Irregularity 2021/22 report are set out in the following table, along with the proposed Action by the Integrity Group:

Public bodies should ensure effective counter-fraud arrangements are in place. These include:	Integrity Group - Action
<ul style="list-style-type: none"> • having effective governance and oversight arrangements for counter-fraud 	<p>The Council’s Counter Fraud Policy states the roles and responsibilities in tackling fraud, including Management, Integrity Group and Audit Committee.</p>
<ul style="list-style-type: none"> • understanding the current and emerging counter-fraud risks facing the body 	<p>The Integrity Group meets quarterly and considers national reports on emerging risks.</p>
<ul style="list-style-type: none"> • regularly reviewing their counter-fraud strategy and counter fraud plan 	<p>The counter fraud strategy and plan were reviewed during 2021/22 by Integrity Group during quarterly meetings.</p> <p>A revised Counter Fraud Policy and Strategy 2021-2024 were approved by Council in December 2021.</p> <p>Counter Fraud planned activity and outcomes are reported annually to Audit Committee.</p>
<ul style="list-style-type: none"> • regularly assessing and reviewing internal controls and governance arrangements to ensure they remain effective 	<p>A Counter Fraud Controls Assessment is carried out at least annually, and outcomes and improvements reported to the Audit Committee.</p>
<ul style="list-style-type: none"> • considering whether the risks and weaknesses in controls identified in this report may exist in their organisation and taking appropriate corrective actions 	<p>This specific assessment is underway in response to the publication of the Fraud and Irregularity Report 2021/22.</p>
<ul style="list-style-type: none"> • reviewing the independent reviews and associated recommendations that were commissioned by the Scottish Environment Protection Agency (SEPA) following a ransomware attack on its systems 	<p>This work was underway with CGI as part of the Counter Fraud Controls Assessment 2021/22 to review the SEPA report and provide assurance that any identified gaps do not exist within the SBC infrastructure. A progress update will be provided to Audit Committee.</p>

- 4.7 The Recommendations arising from the National Fraud Initiative report are set out in the following table, along with the proposed Action by the Integrity Group:

Recommendations	Integrity Group - Action
<p>1. Maximise the benefits</p> <p>All participating bodies in the NFI exercise should ensure that they maximise the benefits of their participation. This includes reviewing matches timeously and prioritising high-risk matches. NFI users should review the guidance within the NFI secure web application, to help ensure the most effective use of limited resources when reviewing and investigating NFI matches.</p>	<p>Plan for NFI 2022-2023 exercise, develop timetable for data submission, and consider resources for the reviewing matches timeously.</p>
<p>2. Self-appraisal</p> <p>The NFI self-appraisal checklist should be reviewed by the audit committee, or equivalent, and staff leading the NFI process. This is to ensure that their organisation's planning, approach, and progress during the next NFI exercise is appropriate.</p>	<p>Complete the NFI Self-Appraisal Checklist to reflect planning for NFI 2022-2023 exercise, and present to Audit Committee.</p>
<p>3. Take improvement action</p> <p>Where local auditors have identified specific areas for improvement, participating bodies should act on these as soon as possible.</p>	<p>Respond to recommendations made by the external auditor to ensure continuous improvement.</p>

- 4.8 The Audit Committee is recommended to endorse the above tasks being undertaken by the Integrity Group, associated with the recently published counter fraud reports by Audit Scotland, and to request an assurance report thereon.

5 IMPLICATIONS

5.1 Financial

Effective internal control systems are designed to prevent and detect fraud, theft, corruption or crime and this contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse.

5.2 Risk and Mitigations

The process of identifying fraud risks by Management is based on the principles of the Council's Counter Fraud Policy and Strategy. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Integrity Group.

5.3 Integrated Impact Assessment

There is no relevance to the Equality Duty or the Fairer Scotland Duty for this report. This refers to routine national reports published by Audit Scotland for improvement and assurance purposes.

5.4 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”.

5.5 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.

5.6 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.

5.7 Data Protection Impact Statement

There are no personal data implications arising from the reports content.

5.8 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.

6 CONSULTATION

6.1 The Integrity Group (the Council’s corporate fraud steering group of officers) has been consulted on this report as part of fulfilling its role in enhancing the Council’s resilience to fraud.

6.2 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.

6.3 The Acting Chief Financial Officer, 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 & Risk **Signature**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036

Background Papers: Scottish Borders Council’s Counter Fraud Policy Statement and Counter Fraud Strategy; Audit Scotland publications on website

Previous Minute Reference: Audit and Scrutiny Committee 20 September 2021

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at fraud@scotborders.gov.uk