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## COUNTER FRAUD ANNUAL REPORT 2022/23

Report by Chief Officer Audit & Risk

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### AUDIT COMMITTEE

10 May 2023

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#### 1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit 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 2023.**
- 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. 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, safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Integrity Group, whose purpose is to improve the Council's resilience to fraud, theft, corruption, and crime.
- 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. 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 Committee:**
  - a) **Considers the specific counter fraud activity undertaken in 2022/23 in support of the Council's counter fraud policy and strategy; and**
  - b) **Notes the counter fraud next steps planned for 2023/24.**

### **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. These 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.
- 3.2 The Counter Fraud Policy Statement outlines the key objectives and states the roles and responsibilities in tackling fraud. The primary responsibility for the prevention, detection and investigation of fraud rests with Management. 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.
- 3.3 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 Council Management Team and Senior Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.
- 3.4 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, safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 3.5 The Integrity Group is an officer forum, chaired by the Chief Officer Audit & Risk, which has 2 Director representatives from CMT and representatives from HR, Finance, Legal, IT, and Procurement 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.
- 3.6 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 Strategy, approved by the Audit Committee, states that during the course of all assurance work Internal Audit will consider fraud risks, and prevention and detection controls.
- 3.7 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.

## 4 COUNTER FRAUD SPECIFIC ACTIVITY 2022/23

- 4.1 Quarterly meetings of the Integrity Group were held during the year 2022/23 on 6 June, 3 October, and 5 December 2022, and 6 March 2023 to undertake its remit to improve the Council's resilience to fraud, corruption, theft and crime.
- 4.2 The Integrity Group noted the updates of the following, associated with counter fraud measures: The Financial Regulations (February 2022) set out the financial control, management and administration of the Council's financial affairs; and The Employees Code of Conduct (November 2022) sets out the high standards of personal conduct expected.
- 4.3 The Integrity Group gained insights on emerging risks and suggested actions from members' represented on national forums such as Scottish Local Authorities' Investigators Group, Scottish Local Authority Information Security Group, and Scottish Government Public Sector Cyber Resilience Network.
- 4.4 The Chief Officer Audit & Risk disseminated the Audit Scotland report 'Fraud and Irregularity Update 2021/22' to the Integrity Group on 3 August 2022 to progress the Actions arising from this report. Each of the case studies were assigned to the relevant officer to set out the fraud risk controls in place at Scottish Borders Council and to determine whether any Actions are required to enhance those controls. The Integrity Group at its meeting on 3 October 2022 reviewed the status of Actions and considered the consolidated 'Case Studies Fraud Risk Controls Assessment'. The [Counter Fraud Controls Assessment 2022-23 \(moderngov.co.uk\)](https://www.moderngov.co.uk/counter-fraud-controls-assessment-2022-23) and associated Action Plan were presented to the Council Management Team on 3 February 2022 and then to the Audit Committee on 14 February 2022.
- 4.5 The Integrity Group oversaw the initial planning, resourcing and data submissions associated with the Council's participation in the National Fraud Initiative (NFI) Exercise 2022/2023, including the completion of the NFI Self-Appraisal Checklist to reflect the planning phase. The [NFI 2022-2023 Exercise Update and Self-Appraisal Outcomes \(moderngov.co.uk\)](https://www.moderngov.co.uk/nfi-2022-2023-exercise-update-and-self-appraisal-outcomes) were presented to the Council Management Team on 3 February 2022 and then to the Audit Committee on 14 February 2022 to provide assurance that the Council's planning, approach, resources and progress during the NFI exercise is appropriate.
- 4.6 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. 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 included in the Induction for new members of staff. There is regular and evolving IT security awareness training for staff/users across all levels of the Council, delivered in various methods to ensure engagement and ownership. Furthermore, continued periodic emails are distributed regularly reminding staff of their responsibilities and guidance on what to do if a phishing email is received.

4.7 The Council supports Police Scotland in their criminal investigations by checking addresses and confirming or providing occupiers names and addresses. There were 363 Police Scotland address checks in 2022/23 (304 in 2021/22). This information is provided under section 21 (paras 2 & 3) Data Protection Act 2018.

## **5 COUNTER FRAUD NEXT STEPS 2023/24**

- 5.1 The Integrity Group will continue to: monitor the implementation of the improvement actions arising from the Counter Fraud Controls Assessment, including the Cyber Security Maturity Assessment (CSMA) that was undertaken; carry out a review of the policy framework for managing the risk of fraud; and raise fraud awareness as a method of prevention.
- 5.2 The Integrity Group will 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.
- 5.3 The Integrity Group will carry out a self-assessment of the Council's counter fraud arrangements using the Counter Fraud Maturity Model and will identify any actions for implementation to improve the Council's resilience to fraud, corruption, theft and crime.
- 5.4 The Integrity Group will continue to monitor progress of the Council's participation in the NFI Exercise 2022-2023 on a quarterly basis. The Integrity Group will review responses from the completion of the NFI Self-Appraisal Checklist Q10-18 'Effective follow-up of matches' and Q19-21 'Recording and Reporting' at the appropriate phases of the NFI Exercise, as the Council continues to operate in the data match investigation phase, and ultimately transitions to the recording and reporting phase.

## **6 IMPLICATIONS**

### **6.1 Financial**

Effective internal control systems are designed to prevent and detect fraud and this contributes to safeguarding the Council's resources, for delivery of services, as part of protecting the public purse. The Council's corporate subscription to the National Anti-Fraud Network (NAFN) £1,600 for 2022/23 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.

All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no known frauds greater than £5,000 during 2022/23 that resulted in loss to the Council. There were no reported outcomes from the National Fraud Initiative 2022-2023 Exercise at this early stage.

### **6.2 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, including their oversight of the Council's participation in the NFI Exercise. The Audit Committee provides Elected Member oversight.

### **6.3 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.

### **6.4 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 as part of the revised Counter Fraud Policy and Strategy 2021-2024. 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".

### **6.5 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.

### **6.6 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.

### **6.7 Data Protection Impact Statement**

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

### **6.8 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.

## **7 CONSULTATION**

7.1 The Integrity Group has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.

7.2 The Council Management 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.

7.3 The Acting Chief Financial Officer, the Interim Chief Officer Corporate Governance (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)**

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

**Background Papers:** Audit Scotland publications on website

**Previous Minute Reference:** Audit and Scrutiny Committee 27 June 2022

**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.

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