# AUDIT SCOTLAND FRAUD AND IRREGULARITY REPORT 2022/23

## Report by Chief Officer Audit and Risk

## AUDIT COMMITTEE

## 25 September 2023

## 1 PURPOSE AND SUMMARY

**1.1 The purpose of this report is to make the Audit Committee aware of a recently published counter fraud report 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 a national fraud report recently published by Audit Scotland, which sets 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 Fraud and Irregularity Report 2022/23 published in recent months;**

**b) Endorses the tasks being undertaken by the Integrity Group, associated with the recently published counter fraud report by Audit Scotland, as set out in Action Plan in paragraph 4.6 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.

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 FRAUD AND IRREGULARITY REPORT 2022/23

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 report has been published by Audit Scotland in recent months relating to fraud risks and outcomes:

   ➢ [Fraud and irregularity: Annual report 2022/23 (audit-scotland.gov.uk)](audit-scotland.gov.uk) (published 13 July 2023) A summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2022/23.

4.3 Key messages in the Fraud and Irregularity 2022/23 report were as follows:

1. During 2022/23, 12 cases of fraud and irregularity valued over £139,000 were identified. Weaknesses in internal controls contributed to each case identified.

2. Auditors have found that public bodies have effective systems, procedures and controls in place to help prevent and detect the majority of fraud and irregularity.

*In comparison, 7 cases of fraud and irregularity valued at £354,000 were identified in public bodies during 2021/22.*

4.4 The Fraud and irregularity identified during 2022/23 totalled over £139,000 and fell into the following categories: Grant Payments (5 cases); Invalid Supplier (1 case); Procurement Card (1 case); School Funds (1 case); Payroll and Pensions (3 cases); Theft (1 case).

4.5 This provides an opportunity for the Integrity Group to consider the recently published counter fraud report 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 2022/23 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 |
|---|---|
| • undertaking a fraud risk assessment to identify areas at risk | The Integrity Group meets quarterly and considers national reports on emerging risks. |
| • having effective counter-fraud governance arrangements | A revised Counter Fraud Policy and Strategy 2021-2024 were approved by Council in December 2021. The Council's Counter Fraud Policy states the roles and responsibilities in tackling fraud, including Management, Integrity Group and Audit Committee. |
| • having a counter-fraud strategy and regularly reviewing counter-fraud plans | The Council's Counter Fraud Strategy and planned activity are monitored by the Integrity Group during quarterly meetings. Counter Fraud planned activity and outcomes are reported annually to Audit Committee. |
| • regular assessment and review of internal controls | A Counter Fraud Controls Assessment is carried out at least annually, and outcomes and improvements reported to the Audit Committee. |
| • considering the control weaknesses identified in this report | This specific assessment is underway in response to the publication of the Fraud and Irregularity Report 2022/23. |

4.7 The Integrity Group has considered this cover report and the full national 'Fraud and Irregularity Annual Report 2022/23' at its meeting on 4 September 2023. In response, it requested a counter fraud controls assessment to be carried out relating to the reported fraud cases by other public sector organisations. Work is underway by relevant Managers to indicate the Scottish Borders Council fraud prevention and detection controls relating to each public sector fraud case >£5k in 2022/23. Once collated, these will be considered by the Integrity Group and an assurance report will be prepared for Council Management Team in advance of its presentation to the Audit Committee meeting on 13 November 2023.

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 formally 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 a routine national report 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 report 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), as part of fulfilling its role in enhancing the Council's resilience to fraud, received the Audit Scotland 'Fraud and Irregularity Annual Report 2022/23' on 19 July 2023. The Integrity Group considered the key messages and recommendations therein at its meeting on 4 September 2023. In response, it requested a counter fraud controls assessment to be carried out relating to the reported fraud cases by other public sector organisations. The Integrity Group has been consulted on this report.

6.2 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 at its meeting on 13 September 2023 and any comments received have been taken into account.

6.3 The Director of Finance & Procurement, Director of Corporate Governance (and Monitoring Officer), Director of People Performance and 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 |
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**Background Papers:** Scottish Borders Council's Counter Fraud Policy Statement and Counter Fraud Strategy; Audit Scotland publications on website
**Previous Minute Reference:** Audit Committee 12 September 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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