
COUNTER FRAUD CONTROLS ASSESSMENT 2023/24

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to make the Audit Committee aware of the findings and necessary actions arising from the Integrity Group's assessment of counter fraud controls.**
- 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.
- 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 Committee:**
 - a) Acknowledges the findings from the Integrity Group's assessment of counter fraud controls 2023/24 in response to fraud risks set out in Appendices 1 and 2; and**
 - b) Endorses the ongoing Management actions to enhance the Council's resilience to fraud, as summarised in the Action Plans set out in Appendices 1 and 2.**

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.
- 3.2 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.
- 3.3 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.
- 3.4 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.
- 3.5 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.
- 3.6 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.
- 3.7 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.
- 3.8 The Audit Committee on 25 September 2023 considered the [Fraud and irregularity: Annual report 2022/23 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/2023/07/13/fraud-and-irregularity-annual-report-2022-23) (published 13 July 2023) that set out a summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2022/23.
- 3.9 The Audit Committee endorsed the tasks being undertaken by the Integrity Group associated with the Audit Scotland report and requested an assurance report thereon.

4 SELF-ASSESSMENT 2023/24 FINDINGS AND NECESSARY ACTIONS

- 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 Chief Officer Audit & Risk disseminated the Audit Scotland report 'Fraud and Irregularity Update 2022/23' to the Integrity Group on 19 July 2023 to progress the Actions arising from this report (Appendix 1).
- 4.3 One of the actions arising from the Audit Scotland report 'Fraud and Irregularity Update 2022/23' is for public bodies to consider whether the risks and weaknesses in controls identified in this report may exist in their organisation and taking appropriate corrective actions.
- 4.4 The Integrity Group considered 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. 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 Management Actions are required to enhance those controls.
- 4.5 The Integrity Group has reviewed the status of Actions (set out in Appendix 1) and considered the consolidated 'Counter Fraud Controls Assessment 2023/24' (set out in Appendix 2), supporting the further actions required to enhance existing fraud risk controls.
- 4.6 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. The Integrity Group will continue to monitor progress with implementation of Actions, noting that some are continuous across all parts of the Council.

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**
Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation. 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 and Strategy 2021-2024, approved by Council on 16 December 2021. This is a routine good governance report for 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 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".

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 content of this report.

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 has carried out the counter fraud controls self-assessment 2023/24 and has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.

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 on 1 November 2023.

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 and Risk Signature

Author(s)

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Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit Committee 25 September 2023

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Contact us at fraud@scotborders.gov.uk

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The Recommendations arising from the Fraud and Irregularity 2022/23 report are set out in the following table, along with the status of the Action by the Integrity Group as at 20 October 2023:

<p>Public bodies should ensure effective counter-fraud arrangements are in place. These include:</p>	<p>Integrity Group Action – Status as at 20 October 2023</p>
<p>1) undertaking a fraud risk assessment to identify areas at risk</p>	<p>The Integrity Group meets quarterly and considers national reports on emerging risks.</p>
<p>2) having effective counter-fraud governance arrangements</p>	<p>A revised Counter Fraud Policy and Strategy 2021-2024 were approved by Council in December 2021.</p> <p>The Council’s Counter Fraud Policy states the roles and responsibilities in tackling fraud, including Management, Integrity Group and Audit Committee.</p>
<p>3) having a counter-fraud strategy and regularly reviewing counter-fraud plans</p>	<p>The Council’s Counter Fraud Strategy and planned activity are monitored by the Integrity Group during quarterly meetings.</p> <p>Counter Fraud planned activity and outcomes are reported annually to Audit Committee.</p>
<p>4) regular assessment and review of internal controls</p>	<p>A Counter Fraud Controls Assessment is carried out at least annually, and outcomes and improvements reported to the Audit Committee.</p>
<p>5) considering the control weaknesses identified in this report</p>	<p>This specific assessment has been completed by relevant officers across a range of Council Services in response to the publication of the Fraud and Irregularity Report 2022/23.</p> <p>The Counter Fraud Controls Assessment 2023/24 for Scottish Borders Council is set out in Appendix 2.</p>

Appendix 2

The Counter Fraud Controls Assessment 2023/24 for Scottish Borders Council, as at 20 October 2023, is summarised in the following table. This is based on the fraud risks identified in the cases of fraud and other irregularities at public bodies in 2022/23 reported to their respective external auditors and summarised in the [Fraud and irregularity: Annual report 2022/23 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk) (published 13 July 2023).

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Contact
Case study one: Grant Payments	<p>Evidence is requested by applicants in support of their application.</p> <p>The evidence is reviewed and checked for any discrepancies e.g. evidence of amendments being made, splices in the document, overwriting) and checked to make sure it includes all relevant information i.e. legal name and address of business. This is checked against our records. Additional checks are done to make sure applicant is listed as having the business (typically on Companies House, website, social media, etc.).</p>		Customer Advice & Support Services Manager
Case study one: Grant Payments	<p>Evidence is requested by applicants in support of their application.</p> <p>The evidence is reviewed and checked for any discrepancies e.g. evidence of amendments being made, splices in the document, overwriting) and checked to make sure it includes all relevant information i.e. legal name and address of business. This is checked against our records. Additional checks are done to make sure applicant is listed as having the business (typically on Companies House, website, social media, etc.).</p> <p>Any amendments requested to payment details are requested from the applicant in writing, and evidence of the new account details need to be provided. This would typically be in the form of a bank statement including details of purchases etc to allow us to determine the authenticity of the document provided.</p>		Customer Advice & Support Services Manager
Case study three: Invalid Supplier	<p>Bank details are not amended on supplier accounts upon receipt of an email. A BACS form would be posted to the address registered in Business World for the supplier. If that form was not returned, we would independently search for a contact telephone number (via Google) for the supplier and telephone asking them to confirm their details. We would then log into RBS Bankline and carry out a Bankline check to verify the information provided.</p>		Procurement Business Partner

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Contact
Case study four: Procurement Card	Currently in place the purchase cards do not have the cash withdrawal functionality added to them so therefore cardholders or individuals cannot take physical cash out on these cards, also in place with cardholders we have approvers set up in RBS SDOL to provide the second level of approval. This is all detailed in the policy as well as the reviewers (cardholders) and approvers guidance documents.	The only area we may look to strengthen over time is more approvers for cover in areas to ensure that if individuals are off on annual leave or sick that this doesn't get missed as well as liaising with the bank on a regular basis to ensure technologies and processes are the most up to date.	Procurement Business Partner
Case study five: School Funds	<p>The School Fund records are administered in accordance with the appropriate financial procedures (School Fund: Guidelines to Headteachers on Accounting Procedures) as outlined in the Council's Financial Regulations.</p> <p>The revised Excel template for the maintenance of the School Fund has been used in full since the academic year (August to July) 2021/22, in response to an Internal Audit recommendation in 2020/21, with further improvement required on consistency of its use.</p> <p>The template includes Accountability Statements, Large Balance transfers, Pivot Tables, and Reconciliations to enable central oversight of all School Funds by SBC as the Education Authority.</p>	The scope of the planned Internal Audit review 2023/24 will assess progress on the prior year 2022/23 improvement action to ensure consistency in data recording across all schools in order to provide accuracy on the amount available to spend.	Business & Performance Manager
Case study six: Payroll	<p>Notification of change forms are submitted by managers for any change in contractual hours be these increases or decreases. These forms are then signed off by the HR Admin Team within HR Shared Services and a letter issued to the employee to confirm the change including the effective date of change. This is then passed to the Payroll Team within HR Shared Services to update the employee record within Business World. Once the update has been made this is peer checked as part of existing audit controls.</p> <p>On a monthly basis Forecasting reports are issued to budget holders which show the contractual hours for the employee and the associated spend at an individual employee level. Budget Holders are required to check this information and highlight any discrepancies.</p> <p>Then on an annual basis information is issued to all budget holders for checking as part of the Workforce Budget setting process.</p>	<p>There are already plans being developed for the introduction of manager induction programme to outline the tasks and responsibilities that a new manager has, this will be in the form of e-learning so compliance can be monitored.</p> <p>Additionally, reminders are issued to managers on their responsibilities to submit paperwork accurately and timely. Linked to this a list of HR/Payroll forms and their use will be issued and made available through the various communication channels.</p>	HR Shared Services Manager
Case study seven: Payroll	Same controls as outlined above through the use of Leavers Notification Forms.	As above.	HR Shared Services Manager

Case Study Fraud Risk	Fraud Risk Controls in place at Scottish Borders Council	Any action required to enhance existing Fraud Risk Controls	Contact
Case study eight: Pensions	<p>The Pension Fund are signed up to the Tell Us Once notification system for the reporting of deaths. This control would ensure that pension payment was ended.</p> <p>When a pensioner passes away there are no further payments processed, with any balance of pension due held in a suspense account until confirmation of further beneficiary or estate had been received.</p> <p>Any request to change bank details for a deceased pensioner would not be applied to the pensioners record and further review carried out. This is not something that the Pension Fund have encountered.</p>	Additional control around the reporting of deaths of pensioners is being contracted with our Pension Administration Software provider, this will further enhance the checking of deceased pensioners.	HR Shared Services Manager
Case study nine: Theft	IT Hardware and peripheral stock is kept in a secure location with access to the keys, via number lock, limited to a small number of SBC staff and CGI colleagues. Due to restrictions on storage space, stock levels are kept to a minimum with regular stock checks undertaken to ensure that stock levels are as expected.		IT Client Manager