

Counter Fraud Annual Report 2023/24

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the counter fraud work undertaken during the year to 31 March 2024 in support of the Council's counter fraud policy and strategy; and
- b) Note the outcomes of the counter fraud activity 2023/24.

2 Purpose of Report/Executive Summary

The purpose of the report is to make the Audit Committee aware of the Council's counter fraud responsibilities and the activities of the Integrity Group and Corporate Fraud team in liaison with other services over the past year as part of the arrangements to tackling fraud at the Council.

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. Specific changes associated with the Counter Fraud Strategy approved by Council on 25 August 2020 include: a focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime; and ensure these are embedded preventative practices.

Assurances about the effectiveness of the Council's existing systems and arrangements for tackling fraud can be taken from the outcomes contained within this report.

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Report Contact:

Duncan Stainbank

duncan.stainbank@midlothian.gov.uk

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. Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse.
- 3.2** The Council approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy in 2020. Specific changes associated with the refreshed Counter Fraud Strategy include: a focus on enhancing fraud prevention and detection to improve the Council's resilience to the risk of fraud, theft, corruption and crime; and ensure these are embedded preventative practices.
- 3.3** The primary responsibility for the prevention, detection and investigation of fraud rests with management. 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, and it is chaired by the Executive Director Place. The purpose of the Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). 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** Part of the Audit Committee's role is to review the assessment of fraud risks and potential harm to the Council from fraud and corruption, and to monitor the counter fraud strategy, actions and resources.
- 3.5** 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 during 2023/24

- 4.1** The Counter Fraud Annual Plan 2023/24, setting out Corporate Fraud activity at a high level, was approved by the Audit Committee on 7 March 2023. All elements of the Counter Fraud planned work were carried out, relating to activity at a high level as follows:
- a) Contract Management
 - b) Corporate Fraud Enquiries
 - c) National Fraud Initiative
 - d) Social Housing
 - e) Council Tax
 - f) Corporate Fraud Policy Framework
 - g) Fraud Risk Assessments
 - h) Fraud Awareness Training
 - i) Integrity Group
- 4.2** As specialist investigators, the Corporate Fraud Officers have conducted significant and comprehensive work in respect of Contract Management, liaised with Scotland Excel and Police Scotland as required, and recommended improvements to reduce risks. Work has identified areas of control concern in relation to end to end procurement processes and contract management, within the Council and Scotland Excel. Improvements are being implemented through improved Procurement staffing and blueprint work to resolve these control issues.
- 4.3** The Corporate Fraud Team has dealt with 89 enquiries including 16 from the Midlothian Council website page “Report a possible crime, fraud or similar concern” which is available to employees or the public for whistleblowing purposes. Fraud Response Group meetings have been held to share concerns and progress actions with relevant Management.
- 4.4** Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2022/2023 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 Principal Internal Auditor acts as the Council’s Key Contact for NFI and the Corporate Fraud Team has coordinated the submission of the required data sets from various Council systems and responded to the data matches received to date with input from relevant Services across the Council.
- 4.5** The Corporate Fraud Team has received referrals from Housing Officers during the year to investigate potential subletting or abandonment of Council owned properties; 46 allegations of potential tenancy fraud were investigated, see 5.2 for outcomes.
- 4.6** The Corporate Fraud Team responded to 8 notifications of alleged fraud associated with Council Tax Discounts and Exemptions during the year to determine whether these discounts and exemptions are

claimed legitimately, including Council Tax Reduction Scheme (CTRS) and Single Person Discount (SPD), see 5.3 for outcomes.

- 4.7** It is important that associated policies, procedures and guidelines across the Council are regularly reviewed and updated, as appropriate, to ensure that they keep pace with best practice in relation to fraud and corruption prevention and detection.
- 4.8** The Corporate Fraud Officers are members of the Scottish Local Authority Investigators Group (SLAIG) to represent Midlothian Council. They join SLAIG's quarterly virtual meetings as a forum for sharing best practice across Councils and the wider public sector, thus ensuring their knowledge of emerging fraud risks and issues is up to date. Any insights on fraud risk assessments are shared on a regular basis with the Integrity Group. The Corporate Fraud Officers liaise throughout the year with the Internal Audit Team to provide their view on the potential fraud risk aspects of areas under review.
- 4.9** The Integrity Group held 4 meetings during the year 2023/24 to undertake its functions as set out in its Terms of Reference. The Integrity Group is chaired by the Executive Director Place and has representatives from HR, Finance, Legal, IT, Procurement, Internal Audit and Corporate Fraud.

5 Outcomes of Counter Fraud Activity 2023/24

- 5.1** It has been calculated, using Audit Scotland guidance (where relevant for nominal values), that as a result of counter fraud activity a total savings value of £837,467 has been identified during 2023/24. The types of referrals and the outcomes are summarised in the table in Appendix 1, with details provided below.
- 5.2** As a result of the collaboration between Housing Officers and the Corporate Fraud Team, 5 of the 46 allegations of potential tenancy fraud that were investigated resulted in the return of a property to the Council's housing stock, which were subsequently made available to those in genuine need of social housing. For each of the properties identified, the calculation of savings per property (based on NFI Estimates Outcomes Methodologies) is £78,300, thus resulting in a saving of £391,500.
- 5.3** 1 referral associated with Council Tax Discounts and Exemptions relating to undeclared persons residing in the property, was investigated and subsequently resulted in the removal of Council Tax Single Person Discount this resulted in a saving of £1,891, (based on NFI Estimates Outcomes Methodologies).
- 5.4** Outcomes of the Council's participation in the National Fraud Initiative for 2022/23 resulted in a total saving of £444,076. These outcomes are detailed in Appendix 2.
- 5.5** In conclusion, the Corporate Fraud Team in collaboration with other Services have been successful in delivering the range of activity set out in the Counter Fraud Annual Plan 2023/24 to support the Council's

objectives. Tackling fraud is an ongoing process as the Council's internal and external operating environment changes.

6 Report Implications (Resource, Digital, Risk and Equalities)

6.1 Resource

The Integrity Group will support Management across the Council with counter fraud management by: overseeing the review of the counter fraud policy framework in line with best practice; highlighting emerging fraud and corruption risks, threats, vulnerabilities; agreeing fraud and corruption mitigation actions; raising awareness of bribery, fraud and corruption in the Council as a method of prevention.

The staff resource set out in the Counter Fraud Annual Plan 2023/24 relates to 2 Corporate Fraud Officers, plus some management and supervision provided by the Principal Internal Auditor and the Chief Internal Auditor. The Corporate Fraud Officers collaborate with other managers and employees across the Council to carry out the activity and support the Integrity Group.

6.2 Digital

None.

6.3 Risk

The size and nature of the Council's services puts the Council at risk of loss due to fraud, theft, corruption and crime.

The Counter Fraud Policy sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. Council service fraud risk register creation is now taking place facilitated by the Counter Fraud team. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team during 2023/24 in collaboration with other services is aligned to the Policy and Strategy.

6.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed prior to the presentation of the revised Counter Fraud Policy and Strategy that were approved by the Council on 25 August 2020.

6.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change) by preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of Midlothian Council to achieve its key priorities.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy. The shift to the key drivers for change is an intrinsic part of the proposed change in approach and culture for the Council for tackling fraud and corruption. For example:

- (a) The formal establishment of an Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) shifting to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council;
- (b) A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption, and crime and ensure these are embedded preventative practices;
- (c) Applying the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' for counter fraud policy, strategy and other practices, and adopting the CIPFA Counter Fraud Maturity Model as a means of self-assessment moving forward will enable continuous improvement to be evaluated, managed and evidenced; and
- (d) Use of a blend of toolkits such as fraud risk assessments and e-learning packages that can be tailored to specific Services.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

A.4 Delivering Best Value

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. The Counter Fraud Strategy (August 2020) states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to be evaluated, managed and evidenced to demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has is being utilised by employees, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

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 enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the Counter Fraud Strategy.

A.8 Supporting Sustainable Development

None.

Appendix 1 – Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2023/24

Type of Referral	No. of Referrals	Web	Phone	Email / letter	No. with Potential Fraud Detected	£ Fraud Detected	Comments
Corporate Fraud (Internal)	12	5	3	4			Full investigations undertaken in response to referrals from various sources. Currently 1 historic criminal case is with Police Scotland Economic Crime Unit and has been reported to the Procurator Fiscal and is currently being progressed by the Crown Office.
Housing Tenancy Fraud	46	3		43	5	£391,500	43 referrals were received by email directly from Housing Officers. All 46 referrals were investigated, resulting in the recovery of 5 Council houses which were returned to the available housing stock. Value for each property calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance (£78,300 per property recovered).
Council Tax Discounts & Exemptions, CTRS / SPD/ DWP Benefits	8		1	7	1	£1,891	1 investigation relating to undeclared persons residing in the property subsequently resulting in removal of Council Tax Single Persons Discount. Overpayment calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance.
DPA/SOCG enquiries	6			6			6 enquiries received from Police Scotland.
Other	17	8	5	4			Investigations resulting in referrals being submitted to external partners and internal services including: Education, Trading Standards and Economic Development.
Total	89	16	9	64	6	£393,391	

Appendix 2 – Total outcomes from Midlothian Council’s participation in the National Fraud Initiative 2022/2023 exercise

Type	No of Matches 22/23	No of matches reviewed	Fraud or Errors Detected	Outcome (overpayment)	Estimated Savings	Total Savings	Comments
Council Tax (SPD)	3613	662	50	£10,470	£38,721	£49,191	2 SPD data sets reviewed by Corporate Fraud and 1 reviewed by Revenues. There are still a number of referrals to be decided by Revenues, however due to backlogs, the final outcomes may not be known for some time. There was also a significant reduction in the number of matches reviewed by Corporate Fraud as a request was made by Revenues to pause the production of referral reports as they were adding to an already substantial backlog. Overpayment calculated as per Cabinet Office NFI Estimates Outcomes Methodologies guidance.
Disabled Parking Blue Badges	409	409	311		£202,150	£202,150	311 badges which had not been cancelled on death of badge holder. Savings calculated as £650 per blue badge cancelled to reflect lost parking and congestion charge revenue. As per Cabinet Office NFI Estimates Outcomes Methodologies guidance
Housing Tenants	1468	609	45		£192,735	£192,735	45 errors resulting in applicant being removed from Housing Waiting List with notional savings of £4,283 per individual removed, as per Cabinet Office NFI Estimates Outcomes Methodologies guidance
Total savings for 2022/23 NFI exercise				£10,470	£433,606	£444,076	