

Counter Fraud Controls Assessment 2021/22

Report by Kevin Anderson, Executive Director Place

Report for Decision

1 Recommendations

The Audit Committee:

- a) Acknowledge the findings from the Integrity Group's assessment of counter fraud controls 2021/22 in response to fraud risks; and
- b) Endorse the necessary actions to enhance the Council's resilience to fraud, as summarised in the Action Plan in Appendix B.

2 Purpose of Report/Executive Summary

The purpose of the 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.

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. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime (including cybercrime and money laundering), and ensure these are embedded preventative practices, as specific changes associated with the Counter Fraud Strategy approved by Council in August 2020.

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. 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.

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 contents this report.

Date 7 January 2022

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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 at its meeting on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy, which had been endorsed by the Audit Committee on 22 June 2020 along with the Terms of Reference of the new Integrity Group. 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 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 (including cybercrime and money laundering), and ensure these are embedded preventative practices, as specific changes associated with the Counter Fraud Strategy.
- 3.3** Tackling fraud is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous.
- 3.4** The Integrity Group is an officer forum chaired by the Executive Director Place and currently has representatives from HR, Finance, Legal, IT, Procurement, Internal Audit and Corporate Fraud to support Management to fulfil their responsibilities in tackling fraud. Bi-monthly meetings were held during 2021 to fulfil its functions as set out in its Terms of Reference.
- 3.5** Internal Audit is required to give independent assurance of 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 adequacy of the risk management framework and the internal control environment, including 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.
- 3.7** The Integrity Group carried out an assessment in 2020/21 of counter fraud controls associated with the covid-19-emerging-fraud-risks. The findings from which were reported to the Audit Committee on 9 March 2021, along with the necessary actions to enhance the Council's resilience to fraud, theft, corruption, and crime.
- 3.8** The Audit Committee, at its meeting on 28 September 2021, considered the Audit Scotland report 'Fraud and Irregularity Update 2020/21' (published 1 July 2021) and assigned some tasks to the Integrity Group associated with the Audit Scotland report and to request an assurance report thereon.

4 Self-Assessment 2021/22 Findings and Necessary Actions

- 4.1** The Integrity Group considered the Audit Scotland report 'Fraud and Irregularity Update 2020/21' on 27 October 2021 to determine any Management Actions required in response for improvement and assurance purposes. It noted the similarities in the fraud risks reported in 2020 and 2021 by Audit Scotland. It revisited the Counter Fraud Controls Assessment carried out during 2020/21 to provide a progress update on the agreed Action Plan at its next meeting.
- 4.2** The Integrity Group on 8 December 2021 received a progress update on the Action Plan from each of the Integrity Group Action Owners along with further information on additional practices that have been introduced since the counter fraud controls assessment carried out during 2020/21. The output from that is included within Appendix B. The Integrity Group considered this report in draft on 11 January 2022, prior to its presentation to Corporate Management Team on 12 January 2022 and onwards to Audit Committee 25 January 2022.
- 4.3** 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 contents of this report. The Integrity Group will continue to monitor progress with implementation of Actions, noting that some are continuous across the Council.

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

5.1 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; meeting during the course of fraud investigations with the aim to take corrective action, minimise losses and help prevent further frauds; and coordinating with the Serious Organised Crime (SOC) Group.

5.2 Digital

None.

5.3 Risk

The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

The Counter Fraud Policy Statement 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. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

The Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks contained in this report is designed to provide assurance to Management and the Audit Committee on the efficacy of Midlothian Council's arrangements, and sets out the actions that are ongoing or required to enhance the Council's resilience to fraud. The Integrity Group agreed the content of this report at its meeting on 9 February 2021.

The Integrity Group will carry out a further review of these fraud risks and any other emerging fraud risks relating to Covid-19 in due course, to ensure the controls continue to be effective in mitigating the risks. This will include the receipt, consideration and monitoring of organisational vulnerability alerts or fraud flags, including those identified via various internal and external sources.

5.4 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.

5.5 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 vulnerability 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 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 been promoted in recent years and is being utilised by staff, 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 and Corporate Fraud 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 B

Risk Area	Action required to enhance existing Fraud Risk Controls 2020/21	Integrity Group Action Owner	Progress Update 2021/22
General Governance	The necessary action is the update of Financial Regulations (2012) and Financial Directives, as indicated in the report 'Annual Governance Statement – Financial Improvement Update' to the Audit Committee on 8 December 2020 by the Chief Officer Corporate Solutions.	Financial Services Manager	Update of Financial Regulations (2012) and Financial Directives - planned for end March 2022.
Procurement	The necessary action is to strengthen the capacity and skills in the Procurement Team through recruitment and an engagement with Scotland Excel, as indicated in the report 'Annual Governance Statement – Financial Improvement Update' to the Audit Committee on 8 December 2020 by the Chief Officer Corporate Solutions.	Chief Procurement Officer	A Chief Procurement Officer commenced in post in September 2021. He is undertaking an initial assessment of service provision, resources and areas of improvement.
Payroll-Recruitment	There is ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training.	HR Manager	Partnership working underway with The Money and Pensions Service to ensure the workforce received reputable advice and guidance.
IT-Cyber Crime	Continued periodic emails reminding staff of their responsibilities, and guidance on what to do.	Information Governance/Security Services Lead	Continued periodic emails reminding staff of their responsibilities. Staff are required to undertake new mandatory Cyber Security training available on LearnPro by December 2021.
	There is ongoing monitoring of the effectiveness of the technical and organisational controls and continuous monitoring of the threat landscape.	Information Governance/Security Services Lead	The Information Governance/Security Services Lead attends Scottish Local Authority Information Security Group (SLAISG) quarterly meetings. Assessment underway of the SEPA lessons learned report by SG Digital Office to determine required actions.

Risk Area	Action required to enhance existing Fraud Risk Controls 2020/21	Integrity Group Action Owner	Progress Update 2021/22
Health & Wellbeing	There is ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training.	HR Manager	Ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training. Organisational Wellbeing Strategy to be launched in January 2022 along with the Making it Happen Network encouraging staff to 'be their best selves' and 'do their best work'.
	Sharing best practice and learning lessons from other organisations.	HR Manager	Action plan currently being developed following the Independent Inquiry at the City of Edinburgh Council concerning claims of harassment and other forms of discrimination not being taken seriously during periods of extreme pressure. To be presented to CMT in January 2022.
Wider Risks	Public awareness campaigns from the Scottish Government, Action Fraud, National Cyber Security Centre (NCSC) and others alert people to the dangers of phishing emails and texts and cold calling from fraudsters. These are ongoing.	Information Governance/Security Services Lead	Ongoing as relevant within weekly staff communications.