

Counter Fraud Annual Report 2021/22

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 2022 in support of the Council's counter fraud policy and strategy; and
- b) Note the outcomes of the counter fraud activity 2021/22.

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.

Date 20 May 2022

Report Contact:

Jill Stacey

jill.stacey@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. 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 and the Counter Fraud Annual Plan 2021/22.
- 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. Specific changes associated with the refreshed Counter Fraud Strategy 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.
- 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** 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 Annual Plan 2022/23, approved by the Audit Committee on 14 March 2022, includes an audit of the Council's Counter Fraud Controls and Whistleblowing Arrangements.
- 3.5** 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.
- 3.6** 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 Counter Fraud Activity during 2021/22

- 4.1** The Counter Fraud Annual Plan 2021/22, setting out Corporate Fraud activity at a high level, was approved by the Audit Committee on 22 June 2021. 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 Police Scotland as required, and recommended improvements to reduce risks. Monthly meetings have been held with the Chief Internal Auditor, Principal Internal Auditor and Chief Procurement Officer to foster collaborative working on fraud risks and counter fraud controls over the Council's end-to-end procurement and contract management processes and procedures.
- 4.3** The Corporate Fraud Team has dealt with 97 enquiries including 25 from the Midlothian Council website page "Report a possible crime, fraud or similar concern" which is available to staff or the public for whistleblowing purposes. Fraud Response Group meetings are held to share learnings and progress actions with relevant Management.
- 4.4** Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2020/2021 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 and City of Edinburgh Council for those relating to Covid-19 support grants. These outcomes are detailed in Appendix 2.
- 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; 52 allegations of potential tenancy fraud were investigated.
- 4.6** The Corporate Fraud Team responded to 19 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).

- 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** An assessment has been carried out during 2021/22 of the Council's counter policy framework against best practice, the CIPFA Counter Fraud guidance, as set out in the table below:

The CIPFA Counter Fraud guidance states the minimum policy framework will include:	Associated Policies across the Council (latest approved date and responsible officer in brackets):
Counter Fraud Policy	Counter Fraud Policy and Strategy (August 2020; Chief Internal Auditor)
Whistleblowing Policy	Whistle Blowing – Public Interest Disclosure Policy (August 2017; Chief Internal Auditor/HR Manager)
Anti-Money Laundering Policy	Anti-Money Laundering Policy (October 2019; s95 Officer)
Anti-Bribery & Corruption Policy	Anti-Bribery Policy (December 2016; s95 Officer)
Gifts & Hospitality Policy and register	Gifts & Hospitality Policy and register (March 2019; HR Manager)
Conflict of Interest Policy and register	Outside Employment and Other Interests Policy (April 2019; HR Manager)
Codes of Conduct and Ethics	Employee Code of Conduct (2019; HR Manager)
Information Security Policy	Information Security Policy incorporates the subset of cyber security policy (October 2017; Information Governance / Security Services Lead)
Cyber Security Policy	

- 4.9** The Integrity Group commissioned a review and update of the Whistleblowing Policy, which is well progressed, and of the Anti-Bribery Policy. The Information Security Policy is currently under review and update as part of the Council's cyber security arrangements.
- 4.10** 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.
- 4.11** The Chief Internal Auditor has delivered virtual presentations every 2-3 months to new starts as part of the Induction programme to raise awareness of their responsibilities in tackling fraud, to highlight who to contact in the Corporate Fraud team for assistance, and to encourage reporting of suspected frauds through the existing whistleblowing arrangements. Two eLearning modules on Procurement Fraud Awareness and on Bribery Act 2010 are available on the LearnPro system for staff training purposes.

- 4.12** Bi-monthly meetings of the Integrity Group were held during the year 2021/22 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.
- 4.13** 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 and received a progress update on the Action Plan from each of the Action Owners, along with further information on additional practices that have been introduced. The Counter Fraud Controls Assessment 2021/22 was presented to the Corporate Management Team on 12 January 2022 and to the Audit Committee on 25 January 2022 for assurance purposes.

5 Outcomes of Counter Fraud Activity 2021/22

- 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 £842,467 has been identified during 2021/22. 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, 9 of the 52 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, according to Audit Scotland guidance, is £93k over 4 years, thus resulting in a saving of £837k.
- 5.3** Three referrals associated with Council Tax Discounts and Exemptions, relating to an undeclared person residing in the property, were investigated and subsequently resulted in the removal of Council Tax Single Person Discount (SPD) (£5,467).
- 5.4** The outcomes of the Council's continuing participation in the National Fraud Initiative 2020/2021 total £680,190, the conclusion of the 2-year exercise during the year 2021/22 as at 11 April 2022. 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 2021/22 and achieving the above outcomes during 2021/22 to support the Council's objectives. The Integrity Group has met regularly during the year to undertake activity within its remit associated with the Counter Fraud Strategy. 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 2021/22 relates to two 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 staff 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. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team during 2021/22 in collaboration with other Services is aligned to the Policy and Strategy.

The report on the Integrity Group's assessment of counter fraud controls 2021/22 presented to the Corporate Management Team on 12 January 2022 and to the Audit Committee on 25 January 2022 was designed to provide assurance on the efficacy of Midlothian Council's arrangements, and set out the actions that are ongoing or required to enhance the Council's resilience to fraud.

The Integrity Group will carry out a further review of these fraud risks and any other emerging fraud risks in due course, to ensure the controls continue to be effective in mitigating the risks.

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)

Appendices:-

Appendix A - Additional Report Implications

Appendix 1 - Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2021/22

Appendix 2 - Outcomes from Midlothian Council's participation in The National Fraud Initiative 2020/2021 (to 11/04/2022)

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 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 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 2021/22

Type of Referral	No of Referrals				No. with Fraud Detected	£ value Fraud Detected	Comments
		Web	Telephone	Email/letter			
Corporate Fraud (Internal)	9	1	6	2			Investigations in response to referrals from various sources. Disciplinary or other action taken, as appropriate. Currently 2 criminal cases from previous years are with Police Scotland, 1 of which is due to be heard at Edinburgh High Court in January 2023 and the other case is currently being investigated by the Economic Crime Unit.
Housing Tenancy Fraud	52	15	1	36	9	£837,000	52 referrals resulting in investigations which recovered 9 Council houses which were returned to the available housing stock. Value for each property as per Audit Scotland guidance (£93,000 over 4 years each).
Council Tax Discounts & Exemptions, CTRS / SPD	19	7	4	8	3	£5,467	3 investigations relating to undeclared persons residing in the property, subsequently resulting in removal of Council Tax Single Persons Discounts.
Scottish Welfare Fund	2		2				Investigations carried out and currently seeking direction on how these allegations will be decided upon.
Housing Benefits	9	1	7	1			9 Referrals submitted to DWP SFIS to investigate further.
DPA/SOCG enquiries	2			2			2 Enquiries received from Police Scotland.
Other	4	1	1	2			Investigations resulting in referrals being submitted to external partners and internal services including City of Edinburgh Council, Trading Standards and Economic Development.
Total	97	25	21	51	12	£842,467	

Appendix 2 – Outcomes from Midlothian Council’s participation in The National Fraud Initiative 2020/2021 (to 11/04/2022)

Type	No of Matches in 2020/2021	No of matches reviewed	Fraud or Errors Detected	Outcome (overpayment)	Estimated Savings	Total Savings	Comments
Council Tax (SPD)	3,305	1,250	211	£154,044	£153,479	£307,523	Previous years NFI matches excluded. 3 SPD data sets reviewed by Corporate Fraud (2) & Revenues (1). There is still a number of referrals to be decided upon by Revenues; however due to backlogs the final outcomes may not be known for some time.
Housing Benefit	69	14	1	£1,774	£966	£2,740	15 Data sets received; however only 1 data set was reviewed as Revenues could not provide a resource due to other priorities and staff capacity. The review was carried out by Corporate Fraud.
Council Tax Reduction Scheme (CTRS)	428	0	0				13 Data sets received; however none reviewed as Revenues could not provide a resource due to other priorities and staff capacity.
Payroll	144	112	0				11 Data sets were received. 6 of which were reviewed by Corporate Fraud, as the matches related to Council Tax SPD and secondary employment.
Disabled Parking Blue Badges	309	309	219		£125,925	£125,925	219 badges had not been cancelled when badge holder had passed away, resulting in notional saving of £575 per badge cancelled.
Housing Tenants	649	649	31		£190,200	£190,200	30 errors resulting in Housing applicant being removed from housing list with notional savings of £3,240 per applicant removed. 1 property recovered and returned to Housing stock. Value for each property as per Audit Scotland guidance (£93,000 over 4 years each).
Creditors	1,034	73	0				The large number of matches is as a result of the volume of creditors’ information. Creditors Officer excluded previous years’ matches and carried out a dip sample review of remaining matches which did not indicate any errors.
Covid-19 support grants	36	36	8	£17,934	£35,868	£53,802	2 new Data sets relating to Covid-19 grants. The data sets were reviewed by City of Edinburgh Council as the grants were linked to Non Domestic Rates. 8 cases were found to be either fraudulent or paid in error, subsequently resulting in the recovery of £17,934.
Total Savings				£173,752	£506,438	£680,190	