

Counter Fraud Annual Report 2020/21**Report by Kevin Anderson, Executive Director Place****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the counter fraud work undertaken during the year to 31 March 2021 in support of the Council's counter fraud policy and strategy; and
- b) Note the outcomes of the counter fraud activity 2020/21.

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 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. 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 approved by Council on 25 August 2020.

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 31 May 2021**Report Contact:**

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3 Background

- 3.1** 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 2020/21.
- 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, and ensure these are embedded preventative practices, are specific changes associated with the refreshed Counter Fraud Strategy.
- 3.3** The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the new Integrity Group. The purpose of the new Integrity Group is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering).
- 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.

4 Counter Fraud Activity during 2020/21

- 4.1** The Counter Fraud Annual Plan 2020/21, setting out Corporate Fraud activity at a high level, was approved by the Audit Committee on 22 June 2020. All elements of the Counter Fraud planned work were carried out relating to activity at a high level as follows:
- a) Contract Management compliance testing and investigations;
 - b) Corporate Fraud Enquiries
 - c) Data Match of Council Tax Reduction Scheme, Discounts and Exemptions;
 - d) Data Match associated with the Council's participation in the National Fraud Initiative;
 - e) Corporate Fraud Policy Framework;
 - f) Fraud Risk Assessments; and
 - g) Fraud Awareness Training.
- 4.2** Monthly meetings of the new Integrity Group were held between October 2020 and March 2021 to initiate its functions as set out in its Terms of Reference. The Integrity Group is chaired by the Executive Director Place and currently has representatives from HR, Finance, Legal, IT, Internal Audit and Corporate Fraud.
- 4.3** 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 are shared on a regular basis with the Integrity Group.

- 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.
- 4.5** In response to a recommendation by the Audit Committee at its meeting on 12 October 2020, the Integrity Group considered all three counter fraud reports published by Audit Scotland in June and July 2020, and carried out an assessment of counter fraud controls associated with Covid-19 emerging fraud risks. The findings of the Integrity Group's assessment of Midlothian Council's counter fraud controls and necessary actions to enhance the Council's resilience to fraud were presented to Senior Management on 24 February 2021 and were considered by the Audit Committee on 9 March 2021.

5 Outcomes of Counter Fraud Activity 2020/21

- 5.1** It has been calculated, using Audit Scotland guidance (where relevant for nominal values), that as a result of Corporate Fraud Team activity a total savings value of £300,240 has been identified during 2020/21. These outcomes are detailed in Appendix 1.
- 5.2** The outcomes of the Council's continuing participation in the National Fraud Initiative 2020/2021 will be presented in the Counter Fraud Annual Report 2021/22 at the conclusion of the exercise.
- 5.3** In conclusion, the Corporate Fraud Team has been successful in delivering the activity set out in the Counter Fraud Annual Plan 2020/21 and achieving the above outcomes during 2020/21 to support the Council's objectives. The new Integrity Group has met regularly since October 2020 to initiate 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; 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.

The staff resource set out in the Counter Fraud Annual Plan 2020/21 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. The Actual was 447 days versus Plan 406 Days for Corporate Fraud activity.

6.2 Digital

None.

6.3 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 (approved by Council on 25 August 2020) 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 report on the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks was designed to provide assurance to Senior Management and the Audit Committee 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 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.

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 (approved by Council on 25 August 2020). 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 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 (August 2020).

A.8 Supporting Sustainable Development

None.

Appendix 1 – Outcomes from Corporate Fraud Team activity on corporate fraud enquiries in 2020/21

Type of Referral	No of Referrals	Web	Telephone	Email	No with Fraud Detected	£ value Fraud Detected	Comments
Corporate Fraud (Internal)	7	3	2	2	1	£15,000	Investigations in response to referrals from various sources. Disciplinary or other action taken, as appropriate. 3 investigations still ongoing from prior years. 1 investigation relating to the recovery of Council equipment with the original value of £15k which is currently awaiting outcome of Police Scotland investigation.
Housing Tenancy Fraud	29	9		20	3	£282,240	29 referrals resulting in investigations. 1 applicant was removed from the Housing waiting list, producing a nominal saving of £3,240 as per Audit Scotland guidance. 3 Council houses also recovered and returned to available housing stock. Nominal value per Audit Scotland guidance (£93,000 per property over 4 years): £279,000.
Council Tax Discounts & Exemptions	4	3		1	1		1 enquiry forwarded to DWP SFIS to investigate; however the outcome is not yet known. Information also submitted to Police Scotland to investigate information found during enquiries.
DPA/SOCG enquiries	8			8			A member of the Corporate Fraud team acts as the Single Point of Contact for Midlothian Council with Police Scotland for Serious and Organised Crime Groups. During the year, 8 enquiries were received from Police Scotland and information was provided to them under section 21 (paras 2 & 3) of the Data Protection Act 2018.
Other	18	9	8	1			Investigations mostly resulting in referrals being submitted to external partners and internal services including the Department for Work and Pensions Single Fraud Investigation Service (SFIS) of the Department for Work and Pensions (DWP), Health & Safety Executive, Trading Standards, Planning, and Environmental Health.
Covid-19 support grants administered on behalf of Scottish Government	6	4	1	1	1	£3,000	New types of allegations received relating to Covid-19 breaking of restrictions and fraudulent attempts to claim Covid-19 grants. 1 case was found to be an ineligible application for self- employed grant and was rejected, resulting in the non-payment of £3,000. The main Covid-19 grants were administered by City of Edinburgh Council; however it was later found that 92 applications worth approx. £120k were fraudulent and have been reported to Police Scotland.
Total	72	28	11	33	6	£300,240	