

**Counter Fraud Policy and Strategy****Report by Jill Stacey, Chief Internal Auditor****Report for Decision****1 Recommendations**

Approve the revised Counter Fraud Policy Statement (Appendix 1) and Counter Fraud Strategy (Appendix 2), and approve the proposal to have 2 FTE Corporate Fraud Officers to deliver the revised Counter Fraud Strategy which requires additional resources.

**2 Purpose of Report/Executive Summary**

The purpose of the report is to seek Council approval to the revised Counter Fraud Policy Statement and Strategy for Midlothian Council which have been endorsed by the Audit Committee on 22 June 2020 during its consideration of the Counter Fraud Annual Report 2019/20.

The Counter Fraud Annual Report 2019/20 stated the relevance of conducting a review of counter fraud management arrangements in place and to make improvements in light of the significant fraud investigations that have occurred within Midlothian Council in recent years, noting that these have aspects that are still ongoing.

The conclusion of the review included a refresh to the corporate policy and strategy for tackling fraud.

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 proposed Counter Fraud Strategy.

**Date 4 August 2020****Report Contact:**

Jill Stacey                      Tel No  
[jill.stacey@midlothian.gov.uk](mailto:jill.stacey@midlothian.gov.uk)

### **3 Background**

- 3.1** The Counter Fraud Annual Report 2019/20, that was considered by the Audit Committee on 22 June 2020, stated the relevance of conducting a review of counter fraud management arrangements in place and to make improvements in light of the significant fraud investigations that have occurred within Midlothian Council in recent years, noting that these have aspects that are still ongoing.
- 3.2** The conclusion of the review, stated within the Counter Fraud Annual Report 2019/20, included a refresh to the corporate policy and strategy for tackling fraud. A revised Counter Fraud Policy Statement (Appendix 1) and Counter Fraud Strategy (Appendix 2), which have been endorsed by the Audit Committee on 22 June 2020, is included for full Council approval.
- 3.3** The new Senior Leadership Structure provides the ideal opportunity for re-establishing a counter fraud culture which is fundamental to ensuring an effective response to fraud, theft, corruption or crime. The leadership part played by Corporate Management and Operational Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.

### **4 Report Implications (Resource, Digital, Risk and Equalities)**

#### **4.1 Resource**

The Counter Fraud Annual Report 2019/20 stated the actual corporate fraud resources deployed during 2019/20 was 455 days, broadly equivalent to 2.1 FTE i.e. utilising the two Fraud & Audit Officers full time and greater than planned management and supervision by the Principal Internal Auditor and the Chief Internal Auditor. This was higher than the current approved establishment which is 50% of each of the two Fraud & Audit Officers (1 FTE Corporate Fraud Team), who are Accredited Counter Fraud Specialist officers. A total savings value of £103,164 on other corporate fraud enquiries and total savings of £83,088 on the National Fraud Initiative 2018/2019 have been identified during 2019/20 arising from Corporate Fraud Team activity, as stated within the Counter Fraud Annual Report 2019/20 which was presented to the Audit Committee on 22 June 2020.

The new counter fraud policy and strategy with a focus on prevention will require more fraud staff resources than is within the current approved establishment. The proposal to have 2 FTE Corporate Fraud Officers, an addition of 1 FTE staff resource, was endorsed by the Audit Committee on 22 June 2020. The other 50% of each of the two Fraud & Audit Officers (1 FTE Audit resource) would need to be retained to deliver planned Internal Audit activity approved by the Audit Committee in March 2020. The additional resource costs, estimated in the region of £45k, arising from enhanced fraud risk mitigation within the Council will need to be funded through a supplementary estimate. A Service Review is being undertaken in collaboration with HR to formally establish the 2 FTE Corporate Fraud Officers posts and 1 FTE Audit resource in place of the two Fraud & Audit Officers.

Savings will continue to be identified arising from Corporate Fraud Team activity, which will be stated within the Counter Fraud Annual Reports presented to the Audit Committee.

#### **4.2 Digital**

None.

#### **4.3 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 (Appendix 1) sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy (Appendix 2) 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 work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

#### **4.4 Ensuring Equalities**

An Integrated Impact Assessment (IIA) Form has been completed with the conclusion that undertaking a Combined Impact Assessment was not necessary as the policy/proposal has little relevance to equality, negligible impact on the economy, and no impact on the environment. The revised Counter Fraud Policy and Strategy set out enhancements to internal Management arrangements though it is anticipated that there will be minimal impact on internal staff only; there is no change to the Whistleblowing external-facing arrangements.

#### **4.5 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 (Appendix 1) and Counter Fraud Strategy (Appendix 2). 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 proposed 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 continuous improvement to be evaluated, managed and evidenced 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, as stated in the Counter Fraud Annual Report 2019/20 that reported outcomes of corporate fraud activity, some of which arose from whistleblowing received from 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 proposed Counter Fraud Strategy.

### **A.8 Supporting Sustainable Development**

None.