Counter Fraud Controls Assessment

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 associated with the covid-19-emerging-fraud-risks; and

b) Endorse the necessary actions to enhance the Council's resilience to fraud.

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 associated with the covid-19-emerging-fraud-risks.

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.

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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.

3.2 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.

3.3 The purpose of the new Integrity Group, which is integral to delivering the Counter Fraud Strategy, is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering).

3.3 The Audit Committee, at its meeting on 12 October 2020, considered three counter fraud reports published by Audit Scotland in June and July 2020, including one on Covid-19 emerging fraud risks https://www.audit-scotland.gov.uk/report/covid-19-emerging-fraud-risks The Audit Committee recommended that the new Integrity Group carry out an assessment of Midlothian Council's counter fraud controls associated with Covid-19 emerging fraud risks and requested an assurance report thereon.

3.4 The Integrity Group is chaired by the Executive Director Place and currently has representatives from HR, Finance, Legal, IT, Internal Audit and Corporate Fraud. Monthly meetings were held in October to December 2020 to initiate its functions as set out in its Terms of Reference. One task was carrying out a self-assessment of the Council's arrangements using the Audit Scotland report, as recommended by Audit Committee.

4 Self-Assessment Findings and Necessary Actions

4.1 To avoid duplication in the self-assessment, the Integrity Group used the controls assurance information for relevant fraud risks due to Covid-19 from the report by the Chief Officer Corporate Solutions 'Annual Governance Statement – Financial Improvement Update' presented to the Audit Committee on 8 December 2020 (link). Input on the controls assurance information to other relevant fraud risks due to Covid-19 was completed by the Human Resources Manager, Legal Services Manager, Financial Services Manager, and Information Governance/Security Services Lead.

4.2 The Audit Scotland report on emerging public sector fraud risks due to Covid-19 was structured within categories. The findings of the Integrity Group's assessment of Midlothian Council's counter fraud controls and necessary actions are set out below using those categories.

4.3   General Governance risk

Existing controls remained applicable with the shift to remote working or new services which were implemented at pace. There were some changes to internal controls. Supervision and training was provided by host Services for deployed staff. Internal Audit staff are working from home; 2 of 5 team members were deployed part-time for a period during the initial response phase and 1 employee continues to assist part-time with grant applications. Adjustments to the Internal Audit Annual Plan 2020-21 were discussed with DMTs then CMT and were approved by the Audit Committee on 8 December 2020.

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.

4.4   Procurement risk

Processes to update supplier bank details remain the same as pre-Covid with verifiable evidence necessary in advance of making any changes. Creditors' staff are aware of the increased risk and are being extra vigilant.

The Integra system and associated invoice approval workflows provides a digital route from the ordering of goods and services through to payment of suppliers. Internal controls are inbuilt into the systems and associated workflows. Use of invoice approval process was rolled out at pace to additional service areas in March/April as follows: Street Lighting; Energy/Property Management; Transportation; Construction and Projects.

The Procurement team worked closely with suppliers, Scotland Excel and other public sector colleagues to protect the supply chain. Use was made of the provisions in Regulation 72 of the Public Contracts (Scotland) Regulations 2015 and the Council's Non Competitive Action procedure to modify and extend existing contracts, where appropriate, to avoid disrupting the supply of goods and services.

Controls in the Purchase Ledger system highlight any potential payment that is the same or similar to another and the veracity of this payment is reviewed prior to processing. The processes for authorisation of invoices require authorisers to ensure that goods and services are received before proceeding to payment stage.

Required procedures in terms of the Procurement Manual were maintained albeit using electronic signatures and e-mail communications for authorisation. Contract award and variation letters were issued electronically.

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.

4.5 Covid-19 Funding risk

The main Business Grant scheme was administered on the Council's behalf by the City of Edinburgh Council (CoEC) which administers Non Domestic Rates (NDR) billing and collection for the Council due to the close alignment of this grant scheme to NDR records. Reliance was placed on CoEC internal control and financial governance arrangements for the scheme, which were subject to due diligence checks prior to the release of monies.

Self Employed and B&B Grants schemes were administered directly by Midlothian Council via a mailbox for applicants to submit the application form and associated supporting evidence. This was fed into an Integra E-form which provided the following stages: Input; Scrutiny; Authorisation; Integra Registration. There were segregation of duties and a full audit trail through workflow using unique reference number e-form to payment. Weekly reporting of stats were submitted to Scottish Government.

4.6 Payroll/Recruitment risk

Interviews were carried out virtually and have continued as an established practice where appropriate. Recruiting Manager verification of the person was notified by email. Physical verification of documents was carried out retrospectively when candidate commenced employment. Disclosure Scotland brought forward the implementation for online PVG requests; this has been introduced.

There were no changes in the process for payroll checking and reconciliation. The use of Finance e-forms for the request and authorisation of BACS and Bankline payments has been implemented. E-forms and workflows were already in place for contractual change notifications. E-forms and workflows were implemented for the submission of sickness absence notification and COVID related special leave. The process for the submission and processing of timesheets not changed.

4.7 IT/Cybercrime risk

Midlothian employees have recently completed updated GDPR and Records Management Training. All staff are signatories of the ICT Acceptable Use Policy. There is a specific Remote Working Security Policy that has been promoted to all staff. There was a week's security awareness campaign to all staff and periodic emails reminding staff of their responsibilities. A number of business applications maintain audit trails of access that can be reviewed by Managers for security purposes. There are a limited number of individuals taking card payments at home who have agreed to a specific set of controls. There is an email address to report suspected phishing emails.

The Council employs a defence in depth approach that includes a series of technical and organisational controls to prevent a cyber attack. However there is no guarantee that criminals can't circumvent these controls as they have at other organisations.

There is ongoing monitoring of the effectiveness of the technical and organisational controls and continuous monitoring of the threat landscape.

4.8   Health and Wellbeing risk

Staff communications include weekly staff update emails and Chief Executive message, ranging from daily to twice weekly, that provide guidance, support and information on the response and recovery activity, remote working, and other safe systems of work. A range of wellbeing supports includes provision of a mix of formal and informal offerings to support the wellness of its employees, ranging from occupational health, people policies, themed events, training, helplines and other support. Supervision and training provided by host Services for deployed staff. Message to staff on their responsibilities for Protecting the Public Purse as well as information on how to raise concerns via the whistleblowing process.

There is ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training.

4.9   Wider risk

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.

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.