Agenda Item 6

Audit Scotland Fraud and Irregularity 2020/21

Falkirk Council

Title: **Audit Scotland Fraud and Irregularity 2020/21**

Meeting: **Audit Committee**

Date: **23 August 2021**

Submitted By: **Internal Audit, Risk, and Corporate Fraud Manager**

1.   Purpose of Report

1.1   This report provides an overview of a report published by Audit Scotland in July 2021 sharing risks and case studies to support the Scottish public sector in the prevention of fraud. It gives some background to what Internal Audit, Risk, and the Corporate Fraud Team have done to provide assurance in these areas, and highlights where more could be done.

1.2   A link to the report is here: https://www.audit-scotland.gov.uk/uploads/docs/report/2021/as_fraud_irregularity_2021.pdf

2.   Recommendations

2.1   **It is recommended that the Committee:**

(1)   **notes the report and the Internal Audit, Risk, and Corporate Fraud Team response to it; and**

(2)   **notes that Services will be asked to review their governance arrangements for the prevention and detection of fraud.**

3.   Background

3.1   Members will be aware from the previous Audit Committees in April and June of this year that corporate fraud matters are being reviewed, with further activity and developments being reported to future meetings.

3.2   This report by Audit Scotland sets out a range of key fraud risks emerging since the start of the Covid-19 pandemic; and provides the Council with an opportunity to highlight the assurance work undertaken in these areas, and detail the action required to address issues.

3.3   The report also provides a range of recommendations that public bodies should have in place to ensure good governance and to confirm that counter-fraud arrangements are in place. It shares information about cases where internal control weaknesses in public bodies have led to fraud and irregularity, with a view to preventing similar issues happening elsewhere. Additional risks

will continue to emerge as public money and services are targeted by fraudsters.

3.4   During 2020/21, external auditors reported 13 cases of fraud and irregularity[1] across Scotland valued at £0.4 million (this is a comparatively small figure when the Scottish budget for 2020/21 was £49 billion).

4.   Falkirk Council's Internal Audit, Risk, and Corporate Fraud Team Activity

4.1   Audit Scotland sets out seven recommendations that public bodies should have in place. These can be seen in the table below; alongside examples of the work Internal Audit, Risk, and the Corporate Fraud Team have undertaken to ensure arrangements in place are appropriate and robust.

Audit Scotland Recommendations – public bodies should ensure good governance and counter-fraud arrangements are in place, including:	Currently	Further Actions
Having in place appropriate governance and oversight arrangements for counter-fraud.	• Agreed that Corporate Fraud Team activity will be reported twice yearly to Audit Committee (first reported at June 2021 Audit Committee); • Agreed at June 2021 Audit Committee, where particularly sensitive Fraud cases arise, and / or information on the case becomes public, Group Leaders will be briefed, as well as the Audit Committee Chair; • Membership of the Scottish Local Authorities Investigators Group; • Anti-Fraud and Corruption Strategy in place; • Corporate Fraud Investigation Procedures in place; • Engagement with Police Scotland with regard to emerging threats; and • Corporate Risk Register and Service Risk Assurance Statements quarterly and annually which cover specific high risks, such as Covid-19.	• Development of Corporate Fraud Performance Indicators in 2021/22. • Updating of key documents in 2021/22: Anti-Fraud and Corruption Strategy Corporate Fraud Team Investigation Procedures. • Review the Corporate Risk Register and Service Assurance Statements to ensure they properly capture the fraud risks and the relevant monitoring that should take place.

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[1] External Auditors report frauds (or suspected frauds) where they are caused or facilitated by internal control weaknesses at public bodies. These frauds are considered 'significant' if the loss value is over £5k or the nature of the activity is significant.

Audit Scotland Recommendations – public bodies should ensure good governance and counter-fraud arrangements are in place, including:	Currently	Further Actions
Regularly reviewing controls and governance arrangements for counter-fraud to ensure they remain fit for purpose.	• Communicating key fraud messages to relevant staff; • Regular investigation updates with key staff; • Corporate Risks: Quarterly Corporate Risk Register updates. Fraud is identified within various corporate risks, such as Financial Controls, Cyber, and Procurement. Officers update this on Pentana and they are asked to reflect Covid-19 risks; • Governance Groups provide self-assessments. Substantial Assurance is provided annually by the Procurement Board and Information Management Group; • Service Assurance Statements: Quarterly and Annual Directors' Declaration feeding into Annual Governance Statement providing assurance on Financial Controls, Procurement, and Cyber risks; and • Assessment of the adequacy of key, existing controls across the Council through the completion of a risk based Annual Internal Plan.	• Updating of key documents in 2021/22: Anti-Fraud and Corruption Strategy Corporate Fraud Team Investigation Procedures. • Development of regular whistleblowing update meetings with the Corporate Fraud Team Manager, Monitoring Officer, and Human Resources. • Alert services to the contents of the Audit Scotland Fraud and Irregularity Report. Services to provide assurance on their operational governance arrangements in place for fraud and irregularity.
Being alert to emerging fraud risks and where appropriate working with others to help alleviate these risks.	• Membership of the Scottish Local Authorities Investigators Group – attending meetings and sharing best practice; • Reporting suspected fraudulent business grants applications nationally and sharing of outcomes / Police Scotland involvement; • Inclusion of Corporate Fraud Team in induction training (latterly via Teams); • Whistleblowing Line in operation; • Corporate Risk Register horizon scanning: SMTs and CMT are asked to include emerging risks;	• Recommence Corporate Fraud Team toolbox talks for existing staff via Teams. • Will review the communication methods to staff for current fraud trends, and explore ability to rollout emerging fraud risks via Yammer, etc. • Will review options for the rollout of fraud risk alerts to Falkirk Council tenants. • Horizon scanning to be developed. • Better joined up working within the section through the sharing of Internal Audit

Audit Scotland Recommendations – public bodies should ensure good governance and counter-fraud arrangements are in place, including:	Currently	Further Actions
	• Corporate Fraud Team are committed to the prevention, as well as detection, of fraud, theft, and wrongdoing against Falkirk Council. Throughout the year the Corporate Fraud Team provide ongoing fraud prevention advice to services through 'toolbox talks' given by the Corporate Fraud Investigator. Covid-19 impacted these talks in the last financial year; • Work on NFI[2] referrals to identify potential Single Person Discount fraud; • National Anti-Fraud Network alerts and intelligence bulletins are received on fraud trends, which are sent onto the relevant sections for preventative action to be taken; • Local intelligence sharing with Police Scotland; • Membership of the Scottish Local Authorities Chief Internal Auditors Group attending meetings and sharing best practice; • Flexibility within the Internal Audit work programme to conduct additional reviews where necessary; and • Allocating resource to perform checks pre payment (Corporate Fraud Team) for Covid-19 grant funding cases, and review applications post payment (Internal Audit) for Covid-19 grant funding cases and also the review of weekly and urgent payments made during Covid-19.	and Corporate Fraud Team reports.

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[2] The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK. It uses electronic information and techniques to compare and match data held about individuals by public bodies, including Falkirk Council, to identify the potential existence of fraud or error for further investigation and follow-up action. The Corporate Fraud Team are responsible for looking at the 'Single Persons Discount' matches.

Audit Scotland Recommendations – public bodies should ensure good governance and counter-fraud arrangements are in place, including:	Currently	Further Actions
Considering whether appropriate controls are in place to prevent the risks identified in this report materialising in Falkirk Council.	• Corporate Risk Register, which flows through to the Internal Audit work programme; • Any operational risks / weaknesses identified during Corporate Fraud Team investigations are highlighted to senior management for consideration and action; • Internal Audit review internal systems of control via a risk based audit programme. Further details in the next table; and • Corporate Fraud Team involvement in checking cases pre-payment as part of the Covid-19 grant funding payments.	• Recommence Corporate Fraud Team toolbox talks for existing staff via Teams. • Will review the communication methods to staff for current fraud trends, and explore ability to rollout emerging fraud risks via Yammer, etc. • Will review options for the rollout of fraud risk alerts to Falkirk Council tenants. • Continuation of the role of the Corporate Fraud Team in Covid-19 grant funding checking. • Continuation of the role of Internal Audit in Covid-19 processes and payments made.
Considering whether the weaknesses in internal control that facilitated each case of fraud or irregularity identified in this report may also exist in Falkirk Council, and taking the required corrective action.	• Senior management involvement in significant investigations findings; • Corporate Fraud Team assessment pre payment in Covid-19 grant funding applications; and • Mapped the fraud risk groupings contained within the Audit Scotland Fraud and Irregularity report to the current and previous Annual Internal Audit Plan to ensure appropriate coverage and consideration of identified weaknesses (as per the next table).	• Restart the NFI work once Covid-19 restrictions are lifted. • Development of Management Action Plans in investigation final reports to facilitate the implementation of investigation findings and necessary follow up work. • Continuation of the role of the Corporate Fraud Team in Covid-19 grant funding checking.

Audit Scotland Recommendations – public bodies should ensure good governance and counter-fraud arrangements are in place, including:	Currently	Further Actions
Auditors should confirm that appropriate governance arrangements for the prevention and detection of fraud are in place and that appropriate reviews and amendments of controls have taken place in response to new ways of working.	• Internal Audit review of control weaknesses via audits, with agreed management action plans setting out recommended improvements, responsible Officers, and implementation dates. Reports (in most instances) include an opinion on the adequacy of risk management, governance, and control arrangements; • Outstanding recommendation reports produced from Pentana on at least a twice yearly basis, with progress updates requested from the responsible Officers for each outstanding recommendation, and updates provided to Audit Committee; • Internal Audit continuous auditing role checks payments made on a quarterly basis for potential duplicates, reporting findings and tracking action taken to recover / investigate; • Money Laundering quarterly report reported by the Internal Audit, Risk, and Corporate Fraud Manager to the Chief Finance Officer. Concerns are reported to the National Crime Agency via their Suspicious Activity Report website; and • Internal Audit, Risk, and Corporate Fraud Manager and Corporate Fraud Team Leader involvement in Covid-19 grant funding board meetings discussing and advising on governance arrangements and control measures required.	

Audit Scotland Recommendations – public bodies should ensure good governance and counter-fraud arrangements are in place, including:	Currently	Further Actions
Auditors should confirm that internal controls are sufficiently strong to prevent the types of fraud and irregularity highlighted in this report.	• Internal Audit provide an Annual Assurance Statement which provides an overall opinion on the Council's risk management, governance, and control arrangements; • Internal Audit continuous auditing role reporting to senior management; and • Preparation of an Annual Governance Statement process, which summarises key elements of the Council's governance arrangements. This includes obtaining Statements of Assurance from each service on key risks; key planned improvements; and outcomes from recent audits, inspections, and self-assessment.	• Alert services to the contents of the Audit Scotland Fraud and Irregularity Report. Services to provide assurance on their operational governance arrangements in place for fraud and irregularity.

4.2   Audit Scotland has grouped the fraud related risks reported to include:

- Covid-19 funding and re-opening of premises and services;
- Health and Wellbeing;
- IT and Cybercrime;
- Governance;
- Procurement;
- Payment; and
- Payroll and Recruitment.

4.3   The programme of work undertaken by Internal Audit has reported on or will report on these risk areas in 2020/21 and / or in 2021/22. A summary of those reviews and the related assurance categories (if already reported) are at **Appendix 1**, with Internal Audit's set of Assurance Categories at **Appendix 2.**

4.4   The Audit Scotland report will be shared with relevant Services to ensure that consideration is given to taking appropriate operational actions. The Internal Audit, Risk, and Corporate Fraud Manager will ask Services to review their governance arrangements for the prevention and detection of fraud and report back to Internal Audit.

5.   Consultation

There has been no consultation.

6.   Implications

Financial

6.1   Appropriate financial controls should be in place to prevent / restrict fraud, and to protect public monies.

Resources

6.2   There are no resource implications arising from the report. Resources are directed within Internal Audit, Risk, and the Corporate Fraud Team to ensure appropriate governance arrangements are in place.

Legal

6.3   There are no legal issues relating to this report.

Risk

6.4   Fraud is recognised as a risk and internal controls are designed to prevent / restrict fraud and these are reviewed by both Internal and External Audit.

Equalities

6.5   There are no equalities issues relating to this report.

Sustainability / Environmental Impact

6.6   There are no sustainability or environmental impacts relating to this report.

7.   Conclusions

7.1   This report provides assurance that action is taken within Falkirk Council's Internal Audit, Risk, and Corporate Fraud Team to ensure that there is appropriate governance arrangements in place for the prevention and detection of fraud. Services will also be alerted to the types of fraud and irregularity highlighted by Audit Scotland so that they can consider operational arrangements in place.

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Internal Audit, Risk, and Corporate Fraud Manager

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Date: 12 August 2021

APPENDICES

- Appendix 1: Internal Audit Fraud Risk Coverage 2020/21 / 2021/22.

- Appendix 2: Definition of Internal Audit Assurance Categories.

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None.

INTERNAL AUDIT FRAUD RISK COVERAGE 2020/21 / 2021/22

Fraud Risk Areas	Year	Key Actions
Covid-19 funding and re-opening of premises and services	2020/21	Business Support Fund (BSF) Grant Administration (Substantial) Newly Self-Employed Hardship Fund (NSEHF) Administration (Substantial) Data Analysis to identify Potential Duplicate BSF and NSEHF Payments (Substantial) Community Action Fund Administration (Substantial) Covid-19 Impact Spend (Substantial) Processing of Weekly and Urgent Payments during Covid-19 (Substantial) School Holiday Food Fund Grants (Limited) Data Analysis to identify potential duplicates NFI exercise underway
	2021/22	Following the Pandemic Pound – Covid-19 Costs Following the Pandemic Pound – Business Grants Arrangements Following the Pandemic Pound – Budgetary and Financial Controls Legionella Management Arrangements Data Analysis to identify potential duplicates
Health and Wellbeing	2020/21	Staff Wellbeing and Support Arrangements (Substantial)
IT and Cybercrime	2021/22	IT and Information Security Governance

Governance	2021/22	IT and Information Security Governance
		Savings and Transformation Tracking
		Fleet Management and Monitoring
		Following the Pandemic Pound – Business Grants Arrangements
		Following the Pandemic Pound – Budgetary and Financial Controls
Procurement	2020/21	Waste Services – Contract Management and Monitoring Arrangements (Substantial / Limited)
	2021/22	Procurement and Housing Property Support and Follow Up
		Following the Pandemic Pound – Covid-19 Costs
Payment	2020/21	Continuous Auditing – potential duplicate creditors payments
		NFI matches underway
	2021/22	Continuous Auditing – potential duplicate creditors payments
		Following the Pandemic Pound – Covid-19 Costs
Payroll and Recruitment	2020/21	NFI matches underway
	2021/22	Payroll Transactional Testing

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited Assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.