AGENDA ITEM No.8

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

23 September 2021

Report by Chief Executive

MANAGING THE RISK OF FRAUD AND CORRUPTION –
FRAUD RESPONSE STATEMENT 2020/2021 (INCUDING AUDIT SCOTLAND FRAUD
AND IRREGULARITY REPORT 2020/21)

PURPOSE OF REPORT

1.   In order to demonstrate compliance with the Code of Corporate Governance, this Fraud Response Statement provides an overview of measures in place across East Renfrewshire Council to address Anti-Fraud, Bribery and Theft, managing the risk of fraud and corruption, and to provide an update on actions undertaken during 2020/2021 where appropriate.

2.   In addition, to save unnecessary duplication of work, this report includes East Renfrewshire Council's response to the Fraud and Irregularity 2020/21 report produced by Audit Scotland. Services have been invited to comment on the key points arising from the report, particularly where there are any variances with the report or there are specific issues arising which they wish to highlight. A copy of the Audit Scotland report Fraud and irregularity 2020/21 (audit-scotland.gov.uk) published in July 2021 has already been circulated to all Audit and Scrutiny Committee Members.

RECOMMENDATIONS

3.   It is recommended that the Audit & Scrutiny Committee

- notes the content of the Fraud Response Statement and the work being undertaken across the Council in relation to managing the risk of fraud and corruption and the reporting already in place

- considers the feedback provided in the context of the comments made in the Audit Scotland report – Fraud and Irregularities 2020/21

BACKGROUND

4.   The Council is committed to fighting fraud and bribery, whether attempted from inside or outside of the authority, in order to protect public funds. Suppliers, contractors, employees, members and service users are expected to act with integrity and without intention to commit fraud or bribery against the Council.

5.   As highlighted in the Audit Scotland Report, it is recognised that the risk of fraud has increased over the last year due to the Covid-19 pandemic. Services continue to review existing controls to ensure that they are still effective and appropriate and at the same time introduce new controls to address new risks. Measures like these have always been important but the unprecedented challenges and pressures brought by the pandemic, and the

opportunities it has presented for fraudsters, bring a renewed focus on ensuring effective governance and controls are in place.

6.   Within the Code of Governance work to address fraud, bribery and theft is undertaken in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code on "managing the risk of fraud and corruption" which sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response. The Code is applicable to all public services organisations and is comprised of five key principles, which are to:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy and
- take action in response to fraud and corruption.

7.   A revised Anti-Fraud, Bribery and Theft Strategy written in line with the CIPFA Code above, was approved by the Corporate Management Team on 20th August 2019. The revised strategy aims to promote an attitude of zero tolerance to fraud. No fraud is acceptable, regardless of the value or scale.

8.   In line with the CIPFA Code recommendations that a Fraud Statement is considered annually. The first Fraud Statement was considered and approved by the Audit and Scrutiny Committee on 24th September 2020. This report provides an updated overview of measures in place to address Anti-Fraud, Bribery and Theft and of work undertaken during 2020/2021 where appropriate.

Audit Scotland Report – Fraud and irregularity 2020/2021 - Overview

9.   The Fraud and Irregularity 2020/21 report shares risks and case studies to support the Scottish public sector in the prevention of fraud. Key messages include recognising the significant challenges due to Covid-19, ensuring a wide range of actions required to mitigate new risks, addressing weaknesses in controls which contribute to fraud and irregular activities with further information available on Audit Scotland's website under "counter-fraud".

10.   The report highlights key fraud risks identified in 2020/21 under the following headings:

- Covid-19 funding and reopening of premises and services
- Health and wellbeing
- IT and cybercrime
- Governance
- Procurement
- Payment
- Payroll and recruitment

MEASURES IN PLACE TO ADDRESS ANTI-FRAUD, BRIBERY AND THEFT

Governance

11.   The Anti-Fraud, Bribery and Theft Strategy, sets out a range of approaches within the Council to identify and minimise fraud and corruption risks. These include independent reviews

of adequacy, efficiency and effectiveness of internal controls by Internal Audit, ensuring all recruitment is undertaken in line with the Recruitment and Selection Policy and that orders and contracts are awarded in accordance with the Council's approved Contract Standing Orders and Financial Regulations.

12.   The Council has put in place a range of policies and procedures to support the Strategy to ensure that appropriate action is taken to prevent, detect and investigate fraud. A range of data and intelligence analysis will be undertaken to detect fraud (or attempted fraud) at the earliest opportunity and appropriate sanctions (including disciplinary, regulatory and criminal) will be taken. East Renfrewshire Council will investigate fraud referrals and seek appropriate redress where possible.

13.   The Audit and Scrutiny Committee provides a scrutiny role in relation to the application of the Anti-Fraud, Bribery and Theft Strategy. The investigation of suspected fraud or bribery is normally carried out by the Internal Audit team and is reported to the Audit and Scrutiny Committee quarterly by Internal Audit.

14.   The pandemic required the Council to undertake new tasks or carry out existing functions in new ways at short notice. To minimise the risks associated with this all departments regularly reviewed their service and the Council's strategic risk register and a new Covid-19 risk register was also maintained.

ICT and Cyber Crime

15.   The Information Security and Digital Risk Officer throughout the Covid-19 period provided updated guidance, policies and risk assessments across a range of cyber and information security topics. This covered information security when working at home; how to manage information on personal devices; and phishing awareness. This latter point also involved campaigns to check our users response to potential phishing emails. This helped shape further controls and training.

16.   It is important that East Renfrewshire Council has a trained, security focused workforce who are capable of identifying suspicious communications and requests, and more importantly how to react to these, is vital in creating an holistic approach to detecting potential fraud including, but not limited to: Online fraud; User account fraud; Phishing and ransomware; False invoicing; False IT Service support calls and/or emails. East Renfrewshire Council participates in a wider UK programme to identify and prevent phishing attacks on the public sector by asking staff to forward suspicious emails to scam@netcraft.com as well as information.security@eastrenfrewshire.gov.uk. This results in suspicious content being addressed and blocked from continuing to proliferate across the public sector.

17.   Both online and tutor led Information and Cyber Security Training provides employees with this focus for both their work and personal life with mandated online training every 2 years ensuring this focus remains. This work also stresses to employees that they are the Council's strongest defence against such threats and malicious actors who may be attempting to gain access to Council information, computing systems and networks. Employees are trained to always be suspicious and question, not just react, when something is unusual or not expected.

18.   The Council actively participates in the national cyber security centre (NCSC) Active Cyber defence programme which provides tools and services which seek to reduce the harm from cyber-attacks and protect against a range of security threats.

19.   The Council has invested in a managed cyber security operations centre (CSOC) resulting in key assets across the network being pro-actively monitored for malicious and unusual activity. This provides an additional layer or protection from malicious actors

attempting to gain a foothold within the network with the aim of breaching our information and systems confidentiality, integrity and availability.

Procurement

20.   Financial control was also tightened with close scrutiny of all expenditure and an additional monitoring report provided to Council in June 2020 to provide an early indication of potential pressures. Staff across procurement, accountancy, IJB and Corporate Health and Safety Unit also liaised throughout last year on the purchase and issue of PPE across all Council services.

21.   Covid-19 brought significant supply challenges in the area of Personal Protective Equipment (PPE). The Procurement Team worked closely with Scotland Excel and the Scottish Government ensuring that due diligence of suppliers was carried out to eliminate risk of sourcing from fraudulent suppliers.

22.   The Procurement Team are included in a working group with Scotland Excel looking at information that could be requested during tender stage and thereafter responses shared with Police Scotland.   This working group has been established due to a recognition that fraud of all kinds, including procurement fraud, increased during the recession, that opportunist suppliers have emerged during Covid-19 and that cyber-fraud is on the rise with the new opportunities made possible by the Internet. There is also growing concern that organised crime is engaging in procurement fraud and appropriate steps have been taken to minimise the risk of this within East Renfrewshire Council.

23.   In addition to this work Procurement include in high value or high risk contract "The Single Procurement Document (Scotland) standard qualification questionnaire which was supplied by Scottish Ministers for all regulated procurements. Sections within this which support management of the risk of fraud and corruption include – Criminal Convictions; Conspiracy; Corruption; Money Laundering; Payment of Taxes; Blacklisting; Bankruptcy and Arrangement with Accounts Payable.

Health and wellbeing

24.   The Council recognises that remote working may result in isolation and/or mental health issues which could result in vulnerability to be targeted. To keep our workforce healthy a number of messages promoting an appropriate work-life balance and sign-posting to support organisations have been shared with employees. The organisation has promoted flexibility in working times to accommodate other demands, particularly during lockdown periods when childcare provision was not available. Managers are encouraged to have regular contact with employees and enquire about their health and wellbeing and to watch out for signs of mental health in the workforce. The council's employee counselling services has seen increasing number accessing the services which can be accessed via manager or self-referral and this service continues to be promoted.

25.   During the pandemic the Council has raised awareness with both residents and employees about potential scams, in particular employee awareness has been raised around financial and vaccine scams.

Payment/Insurance/Payroll and HR

26.   The Council has recently introduced new financial, HR/payroll and Council Tax systems and this meant that procedures were well documented and guidance available on the Council Intranet which assisted employees to work from home. These new systems

incorporated new hierarchies of control so that there were automatic limits and reports on what individual employees could do.

27.   Inventories of furniture and equipment were maintained with items taken home to enable employees working there being recorded.

28.   Specific controls are in place across all processes, in particular "higher risk" (for example payment or cash involved) to ensure risk of loss through fraud is minimised. This includes processes to prevent fraudsters seeking either directly or indirectly (through customers or suppliers) to elicit funds from the Council through misleading/false information.

29.   The HR and Payroll continue to maintain controls around recruitment including right to work checks and the payment of allowances. The team are vigilant and have seen an increase in fraudulent emails requesting changes to employee details, changes are only made where appropriate authorisation is provided.

30.   There is a "segregation of responsibilities" including checks upon System User access and within reconciliations are all in place. This approach is a fundamental part of mitigating the risk of fraud being perpetrated and protects both employees and mitigates the risk of Internal or External Fraud being perpetrated against the Council.

31.   Communications and sharing of information is vital in sharing information in relation to potential frauds. Local Authorities, on behalf of the Government, manage the process and payment of Covid-19 related payments. Potential scams have been identified with the Council sharing this information. Joint local authority intelligence sharing via the local authority network regarding a fraudulent text, issued in relation to "Crisis Grants" enabled the Council to issue social media messages and warning to residents to prevent fraud.

32.   The Revenue Teams work closely with the Department of Work and Pensions (DWP) Fraud & Error Services (FES) in relation to potential Housing Benefit fraud.   The team also receive "alerts" through the National Anti-Fraud Network (NAFN).

33.   As part of the Insurance claim process controls are in place to help mitigate the risk of fraudulent claims.

REPORTING AND POTENTIAL FRAUD 2020/2021

34.   As part of the Intern Audit Progress report considered every 3 months by the Audit and Scrutiny Committee the Chief Internal Auditor provides an update on the requests for assistance which are always dealt with using Internal Audit "contingency". In 2020/2021 a total of one potential fraudulent incident was reported as outlined below:

- Quarter 1 (April to June 2020) – no potential frauds were reported.

- Quarter 2 (July – September 2020) - no potential frauds were reported.

- Quarter 3 (October – December 2020) – no potential frauds were reported.

- Quarter 4 (January – March 2021) – one report of fraud was noted but as this investigation has been referred to Police Scotland and is ongoing, no further information can be provided at this time.

35.   In addition to this the Accounts Payable Team prevented an attempted fraud in November 2020 where what appeared to be a customer email requested a change to bank details. An immediate payment of £13,000 was stopped and there was no loss to East Renfrewshire Council. Following this situation the Accounts Payable Manager introduced enhanced controls to further mitigate this type of risk.

36.   The Council Tax Team identified a potential Money Laundering situation during March/April 2020. Appropriate actions were immediately taken by the Team to ensure Anti Money Laundering (AML) requirements were adhered to, including reporting this incident to the Money Laundering Reporting Officer (Head of Accountancy).

37.   As mentioned in the Audit Scotland report as a way to reduce counter-fraud risks East Renfrewshire Council has an effective approach to the National Fraud Initiative (NFI).   The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Data matching is an effective and efficient way to identify areas for further investigation by connecting discrepancies between different data sets, which include the Electoral Register, HMRC information on pensions and income, Student Loans, immigration and Department of Work and Pensions (DWP) records.

38.   East Renfrewshire has a single point of contact for NFI and a well-established internal network of departmental contacts. A comprehensive report outlining the National Fraud Initiative – update 2020/2021 will be considered by the Audit and Scrutiny Committee on 23rd September 2021.

39.   During the Covid-19 pandemic the UK Government responded with measures to mitigate the economic and social impact including "Covid-19 related payments" which are administered by the Economic Development Team within the Environment Department. Sadly, there is always the potential that fraudsters will try to take advantage of these emergency measures. The fraud threat posed during emergency situations is higher than at other times, and all public bodies were attuned to the risks facing their organisations and the public sector.

40.   The Economic Development, Accounts Payable and Internal Audit Teams have continued to work together to take the appropriate steps to reduce the threat of widespread fraud in relation to the Covid-19 related payments by integrating appropriate controls into the application and appraisal process, payments process and carrying out post-event assurance work to check for fraud and to ensure funding is used for its intended purpose. This included collecting data on who was applying, who was paid, ensuring applicants knew how their data would be used and their legal obligations for grant funding and having robust "claw back" agreements in place to be able to recover funds that were paid out incorrectly or used inappropriately. A sample of high risk grant awards for fraud has been undertaken and where relevant the Team will invoke the claw back agreement and pursue recovery.

41.   Externally, the Economic Development Team worked with Police Scotland and SLAED (Scottish Local Authorities' Economic Development) colleagues to create a list of fraudulent applications that was circulated regularly.

42.   In the event of any potential fraud or concern being identified, appropriate escalation is in place through local management, East Renfrewshire Council senior management, Internal Audit and Police Scotland involvement where appropriate.

FINANCE AND EFFICIENCY
43.   There are no financial implications of this report although it is hoped that by strengthening the approach to anti-fraud, theft and bribery and streamlining the associated documents will minimise the risk to the Council of any financial or reputational risk.

CONSULTATION

44.   A range of colleagues from across the Council including the Head of Accountancy, Chief Auditor, Chief Legal Officer, Chief Procurement Manager, Head of HR and Corporate Services, Head of Digital and Community Safety, Head of Finance and Resources (Chief Financial Officer) HSCP, Senior Revenues Manager, Compliance Officer, Business Development Team Leader have also been consulted as appropriate.

CONCLUSION

45.   This Fraud Response Statement provides an overview of measures in place across East Renfrewshire Council to address Anti-Fraud, Bribery and Theft, managing the risk of fraud and corruption, and to provide an update on actions undertaken during 2020/2021. This report provides the evidence to demonstrate full compliance with the Code of Corporate Governance and the risks highlighted in the Audit Scotland report on Fraud Irregularity 2020/21.

RECOMMENDATIONS

46.   It is recommended that the Audit & Scrutiny Committee

- notes the content of the Fraud Response Statement and the work being undertaken across the Council in relation to managing the risk of fraud and corruption and the reporting already in place

- considers the feedback provided in the context of the comments made in the Audit Scotland report – Fraud and Irregularities 2020/21

Lorraine McMillian   Chief Executive
September 2021

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KEY WORDS

The Fraud Response Statement 2020/21 outlines the work being undertaken across the Council in relation to managing the risk of fraud and corruption.

This report also includes information in relation to Audit Scotland's Fraud and Irregularity Report 2020/21.

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