

EAST RENFREWSHIRE COUNCIL
AUDIT AND SCRUTINY COMMITTEE

29th September 2022

Report by Chief Executive

MANAGING THE RISK OF FRAUD AND CORRUPTION –
FRAUD RESPONSE STATEMENT 2021/2022

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 2021/22 where appropriate.
2. In addition this report includes East Renfrewshire Council's response to the Fraud and Irregularity 2021/22 report published by Audit Scotland in July 2022. This report is a summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2021/22. A copy of this report is available on the Audit Scotland website <https://www.audit-scotland.gov.uk/publications/fraud-and-irregularity-202122>

RECOMMENDATIONS

3. It is recommended that the Audit and 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 Irregularities 2021/22

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. It is recognised that the risk of fraud has increased over the last couple of years 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. A Fraud Statement was considered and approved by the Audit and Scrutiny Committee on 23rd September 2021 and this report provides an updated overview of measures in place to address Anti-Fraud, Bribery and Theft and of work undertaken during 2021/2022 where appropriate.

Audit Scotland Report – Fraud and Irregularities 2021/22 Update - Overview

9. The Fraud Irregularity Update 2021/22 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. Further information is available on Audit Scotland’s website under “counter-fraud”.

10. Specific recommendations in the report include:

- Having effective governance and oversight arrangements for counter-fraud
- Understanding the current and emerging counter-fraud risks
- Regularly reviewing the counter-fraud strategy and counter-fraud plan
- Considering whether the risks and weaknesses in controls identified in the report may exist within East Renfrewshire Council and taking corrective actions
- Reviewing the independent reviews and associated recommendations that were commissioned by the Scottish Environment Protection Agency (SEPA) following a ransomware attack on its systems.

11. These recommendations have been considered in relation to practices within the Council to proactively try and identify potential weaknesses and ensure that appropriate measures have been taken or are in place to prevent these happening within East Renfrewshire.

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

Governance

12. 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. This Strategy is currently being reviewed and updated to ensure it continues to meet the needs of East Renfrewshire Council and addresses current and emerging fraud risks.

13. 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.

14. 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.

15. 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

16. 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; use of strong passwords/passphrases 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 resulting in all employees who clicked during campaigns receiving tutor led targeted training.

17. 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.

18. 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 year saw the introduction of: "Focus On" sessions providing tutor led short topic targeted sessions covering areas including Passwords and Phishing. As a pre-cursor to a larger in-person cyber exercise scheduled for September 2022, cyber incident response exercises for all Department Management Teams (DMTs) were provided aiming to enhance awareness of potential consequences related to cyber incidents and to think in advance about how ready they are to respond. 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.

19. 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 and is an active member of the Scottish Local Authority Security Group (SLAISG) Scotland's WARP (warning, advice and reporting point) which facilitates the sharing of advice, best practice and potential cyber threats and attacks across the public sector.

20. The Council has invested in managed ongoing vulnerability management across its server and desktop estate resulting in all assets being monitored for vulnerabilities and out of date software and 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 of 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.

21. It is important that the Council maintains up to date and patched software and applications. Old and outdated systems can become vulnerable and exploited by hackers and cyber criminals, updates assist in keeping Council computing networks and information safe. ICT continues to ensure that applications and operating systems they manage are patched and updated including the removal of old version of the Windows operating system. This activity requires ongoing and continued support from departments, management and staff.

22. As recommended in the Audit Scotland Fraud Irregularities Update 2021/211 a review of the independent review and associated recommendations that were commissioned by the Scottish Environment Protection Agency (SEPA) following a ransomware attack on its systems has been undertaken to ensure that the work outlined above in this report, in addition to other measures, would reduce the likelihood of East Renfrewshire Council being subject to a similar attack.

23. A recent Corporate Management Team (CMT) and Crisis Resilience Management Team (CRMT) workshop was held specifically focusing on a Cyber Security incident to test the way in which such an incident would be handled and to identify areas for further improvement.

Procurement

24. 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.

25. 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.

26. 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.

27. 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

28. 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.

29. 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

30. The Council has established financial, HR/payroll and Council Tax systems with all procedures well documented and guidance available on the Council Intranet which assists employees to work in hybrid arrangements. These new systems incorporated new hierarchies of control so that there were automatic limits and reports on what individual employees could do.

31. Inventories of furniture and equipment were maintained with items taken home to enable employees working there being recorded. This continues to be reviewed in light of The Way We Work Project.

32. 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.

33. 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.

34. 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.

35. Communications and sharing of information is vital in sharing information in relation to potential frauds which helps to mitigate the risk of frauds being perpetrated, with appropriate actions taken as required.

36. 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).

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

38. A review of the Anti Money Laundering Policy has been undertaken this year. This includes guidance for employees on how to recognise money laundering, procedures for reporting concerns and training/measures to prevent money laundering in relation to payments made to the Council.

39. The Criminal Finances Act 2017 made it an offence for a Council to fail to prevent an associated person from criminally facilitating the evasion of tax. Although measures are in place to address this, a Policy based around best practice principles is currently being prepared to formally set out the processes and policies which are in place to prevent the facilitation of such tax evasion.

REPORTING AND POTENTIAL FRAUD 2020/2021

40. 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 “Fraud Contingency”. Three potentially fraudulent matters were brought to Internal Audit’s attention and investigated during 2021/22. The first two cases did not warrant further action after the initial investigation and neither involved financial loss to the Council. The third case related to theft of council property from council premises, valued at an estimated £300.00, and was reported to Police Scotland.

41. 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.

42. 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 2021/22 will be considered by the Audit and Scrutiny Committee on 29th September 2022.

43. During the Covid-19 pandemic and subsequent Omicron 2022 restrictions, the UK Government responded with measures to mitigate the economic and social impact including “Covid-19 and Omicron 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.

44. 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 and Omicron 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.

45. 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.

46. 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

47. 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

48. 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, Senior Revenues Manager, Compliance Officer, Economic Development and Inclusive Growth Manager have also been consulted as appropriate.

IMPLICATIONS OF THE PROPOSALS

49. There are no direct implications of the proposals in this report specifically in terms of staffing, property, legal, ICT, Subsidy Control, equalities, sustainability and climate change.

CONCLUSION

50. 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 2021/22. This report provides the evidence to demonstrate full compliance with the Code of Corporate Governance.

RECOMMENDATIONS

51. 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 Irregularities 2021/22

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September 2022

BACKGROUND PAPERS

- National Fraud Initiative – Update 2022, Audit and Scrutiny Committee, 23rd September 2022
- Audit Scotland Report - The National Fraud Initiative in Scotland 2022: https://www.audit-scotland.gov.uk/uploads/docs/report/2022/nr_220818_national_fraud_initiative.pdf
- Audit Scotland Report – Fraud & Irregularity 2021/22 <https://www.audit-scotland.gov.uk/publications/fraud-and-irregularity-202122>
- Managing the Risk of Fraud and Corruption Fraud Response Statement 2020 – 2021, Audit and Scrutiny Committee, September 2021