

REPORT TO THE AUDIT COMMITTEE –20 MAY 2021

INTERNAL AUDIT – FRAUD INVESTIGATIONS

1. Reason for Report / Summary

- 1.1 This report advises the Committee of fraud investigation work carried out by Internal Audit during 2020/21.

2. Recommendation

The Committee is recommended to:

2.1 Review, discuss and comment on the issues raised within this report and the attached appendices

3. Purpose and Decision Making Route

3.1 Purpose

- 3.1.1 Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Board. In Aberdeenshire Council, this is the Audit Committee. This report helps satisfy the requirement.

3.2 Decision Making Route

- 3.2.1 The results from individual audit activities detailed in Section 4, below, have not previously been considered by this, or another Committee, with the exception of any outputs relating to audits contained in the Aberdeenshire Integration Joint Board Internal Audit Plan. In such cases, the output will have been considered by the Aberdeenshire Integration Joint Board Audit Committee prior to being considered by this Committee.

4. Discussion

- 4.1 The Council's "Counter Fraud Strategy" (2020) describes fraud as "any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss". It further stated that the term used to describe the acts are "deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion".
- 4.2 Types and risks of fraud offences highlighted include "benefit fraud, bid rigging, blue badge scheme misuse, charity fraud, cheque fraud, council tax fraud, grant fraud, housing tenancy fraud, identity fraud, insurance fraud, mass marketing fraud, online fraud, organised fraud, payroll & recruitment fraud, pension fraud, procurement fraud

and rental fraud”. It is further explained that “Organised fraud is a significant element of the overall organised crime threat, either perpetrated by organised crime groups as a primary activity, or as an enabler/funding device for other serious crimes”.

- 4.3 The Strategic aims of the Counter Fraud Strategy are:
- Create and promote a robust anti-fraud culture across the organisation which highlights the Council’s zero tolerance of fraud and corruption.
 - Proactively deter, prevent, and detect fraud and corruption.
 - Investigate suspected or detected fraud and corruption.
 - Enable the Council to apply appropriate sanctions, including criminal and/or civil proceedings, to punish fraudsters and recover losses, where appropriate.
 - Provide recommendations to inform policy, system, risk management and control improvements, thereby reducing the Council’s exposure to fraudulent activity.
 - Ensure that the resources dedicated to combatting fraud are sufficient and those involved are appropriately skilled.
- 4.4 The Financial Regulations state: “Whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores, equipment or other property of the Council or any suspected irregularity in the exercise of the functions of the Council, the Director concerned shall immediately notify the Chief Executive, the Head of Finance, Head of Legal and People and the Chief Internal Auditor, as appropriate, who shall take such steps as may be considered necessary by way of investigation and report.”
- 4.5 Fraud risks have been identified during the year, largely as a result of due diligence undertaken by Services and Internal Audit in respect of Covid business grants facilitated by the Council on behalf of the Scottish Government. The grants, including the Small Business Grant Fund, the Retail, Hospitality & Leisure Grant Fund, and the Strategic Framework Business Fund, are intended to protect jobs; prevent business closure and promote economic recovery.
- 4.6 The Small Business Grant Fund (SBGF) and the Retail, Hospitality & Leisure Grant Fund (RHLGF) were introduced in March 2020 allowing businesses registered as rate payers in a Local Authority area to apply for a one-off payment of £10,000 (SBGF) or £25,000 (RHLGF). In May 2020 this was extended allowing ratepayers with multiple properties to obtain a grant for each business, one paid in full then any others payable at 75 % for any other subsequent application.
- 4.7 The Strategic Framework Business Fund was introduced to support eligible businesses, forced to close by law or significantly change its operations due to the COVID-19 restrictions introduced from November 2020. This comprised of a temporary closure grant of £2,000 every 4 weeks where businesses have a rateable value up to £51,000 and £3,000 every 4 weeks where business had a rateable value of £51,001 or above. Top up amounts could also apply where appropriate.
- 4.8 In financial guidance issued by the Scottish Government in respect of these grants, local authorities were reminded that “Given their responsibilities for managing public

funds, it is up to local authorities to ensure that procedures for administering the grants are suitably robust, including due diligence to mitigate fraud and for audit purposes. This should include giving due regard to the principles for effective fraud control and having appropriate control mechanisms in place”.

- 4.9 Later guidance noted that “Local Authorities are expected to seek recovery of overpayments including pressing criminal charges where necessary, if fraudulent claims are found. Councils will not be held financially liable for overpayments associated with fraud and error. The exception to this would be circumstances where a council is found to be materially not compliant with the relevant UK Government fraud control guidance”
- 4.10 As a result of the identification of potential fraud, and in the absence of dedicated fraud investigation resources within the Council, a member of the Internal Audit team who is an Accredited Counter-Fraud Investigator has been tasked with prioritising, investigating and sharing findings with Police Scotland, the National Anti-Fraud Network, and the Scottish Local Authorities Investigators Group, as appropriate, following review by the Chief Internal Auditor (Interim). This work, alongside similar work taking place across other Scottish local authorities and the use of shared intelligence, has helped identify and avoid fraudulent payments.
- 4.11 In conjunction with Finance’s recent review of fraud awareness training, this work has raised the profile of these risks across the Council. As a result of raised awareness, and further investigation of the circumstances surrounding potentially fraudulent grant applications, a larger number of potential frauds has been identified in other aspects of the Council’s business – including Non-Domestic Rates, Council Tax, Discretionary Housing Payments, and the Scottish Welfare Fund.
- 4.12 Non-domestic rates (NDR) is a tax paid on non-domestic properties to help pay for local services. Businesses can claim relief through several schemes available, including the Small Business Bonus Scheme (SBBS). Business rates fraud includes when a person deliberately gives incorrect or misleading information in order to pay less or no business rates. For example, failing to declare additional businesses, or changing business records, names and circumstances to evade paying rates or debts.
- 4.13 Council tax is a system of local taxation on domestic properties collected by local authorities to help pay for local council services. Council tax fraud includes when a person deliberately gives incorrect or misleading information in order to pay less or no council tax. For example, circumstances may be mis-declared to claim single person, student, or other discounts.
- 4.14 Discretionary Housing Payments are financial support towards housing costs paid by Scottish Local Authorities when they are satisfied that the claimant needs more help with housing costs and is currently claiming Housing Benefit or Universal Credit Housing costs. Discretionary Housing Payments fraud can include when a person deliberately gives incorrect or misleading information in order to make a claim that they are not entitled to. This could be for example claiming they have no income, when they do, or failing to disclose associated parties.

4.15 The Scottish Welfare Fund is support for people in crisis and people who need help to live independently in the community. It pays out two types of grant: crisis grants and community care grants. Scottish Welfare Fund fraud includes when a person gives incorrect or misleading information in order to make a claim that they are not entitled to. For example, making a claim for funds when the applicant or their partner has another source of income, or making claims on behalf of other parties without their knowledge or consent.

4.16 Since May 2020 Internal Audit has received 31 allegations of fraud, some of which pertain to more than one activity. The total value and the number of instances is estimated below.

Fraud Allegations	Number of Activities	Value of Fraud Avoided	Value of Potential Fraud to be Recovered
COVID-19 Grants	8	N/A	£107,000
COVID-19 Grant attempts	14	£150,500	N/A
Non Domestic Rates Small Business Bonus	1	N/A	£56,000
Non Domestic Rates evasion	4	N/A	£90,000
Council Tax evasion	1	N/A	£10,000
Council Tax Single Persons Discount	2	N/A	£5300
Discretionary Housing Payments	1	N/A	£2,000
Scottish Welfare Fund	5	N/A	£600
Payroll mandate Fraud	1	£5,800	N/A
Payroll Employee Fraud	1	N/A	Ongoing
Still be looked at	6	N/A	N/A
Total	44	£156,300	£269,000

4.17 Investigations are ongoing and are being prioritised by value. Where they have reached an advanced stage, conclusions have been passed to Services and Finance to verify the facts, values, and identify a preferred course of action:

- Where appropriate and supported by evidence of fraud, reports and evidence have been compiled and passed to Police Scotland for consideration of criminal investigations.

- In other instances, it may be beneficial to the Council to recalculate, re-bill and pursue payments as a debt, rather than use additional resources to seek recovery through court proceedings.
- Where control weaknesses have been identified as contributing to fraud risk, these have been raised with the relevant Services to consider and implement changes to procedure as appropriate.

- 4.18 Fraud investigations are resource intensive, for Internal Audit and for Services providing evidence. The standard of evidence required to successfully prosecute perpetrators of fraud is substantial and needs to be sufficiently robust to facilitate Police review and investigation. They are also time sensitive – as delays can impact on the prospect of a successful outcome; and fraud prevention work in respect of grant claims had to be undertaken promptly to avoid delaying decisions being made on valid claims.
- 4.19 Internal Audit logged over 800 hours against fraud investigation and prevention activities during 2020/21. This equates to approximately 0.6 FTE, or 5 planned audits. An allocation of time (approximately 400 hours) has been included in the Internal Audit Plan for 2021/22 to conclude ongoing investigations.

5. Council Priorities, Implications and Risk

- 5.1 The work of Internal Audit covers all of the Council’s Priorities. It aims to provide assurance over the adequacy and effectiveness of the Council’s framework of governance, risk management and control, which underpin the delivery of all priorities.
- 5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

Subject	Yes	No	N/A
Financial		X	
Staffing		X	
Equalities		X	
Fairer Scotland Duty		X	
Town Centre First		X	
Sustainability		X	
Children and Young People’s Rights and Wellbeing		X	

- 5.3 An equality impact assessment is not required because the reason for this report is for Committee to discuss and comment on the findings of Internal Audit work and there will be no differential impact, as a result of this report, on people with protected characteristics.
- 5.4 There are no staffing or financial implications arising directly from this report other than those implicit in the improvement of internal controls recommended in the Internal Audit reports.

5.5 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management.

6. Scheme of Governance

6.1 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report. Any comments made have been incorporated within the report and they are satisfied that the report complies with the Scheme of Governance and relevant legislation.

6.2 The Committee is able to discuss this item in terms of Sections G.1.1.d and G.1.4 of the List of Committee Powers in Part 2A of the Scheme of Governance as the Committee is responsible for Internal Audit matters and reviewing the activities of Internal Audit.

CHIEF INTERNAL AUDITOR

Report prepared by Colin Harvey, Chief Internal Auditor (Interim).
30 April 2021.