

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 1 JUNE 2021**

**AUDIT SCOTLAND REPORT: FRAUD AND IRREGULARITY UPDATE 2019/20**

**REPORT BY CATHIE WYLLIE, SERVICE LEADER INTERNAL AUDIT**

**ABSTRACT**

This report advises members of the Audit Scotland Report “Fraud and irregularity update 2019/20” and considers the internal control issues raised in relation to Angus Council. The committee previously noted the publication of this report at the August 2020 meeting. (Report 202/20 refers).

**1. RECOMMENDATIONS**

It is recommended that the Committee:

- (i) Consider the council’s position in relation to internal controls to mitigate against the reported incidents and
- (ii) make recommendations about future internal audit or scrutiny work if required.

**2. ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN/CORPORATE PLAN**

The work of the Scrutiny & Audit committee supports the achievement of the corporate priorities set out in the Angus Local Outcomes Improvement Plan and the Council Plan. This report supports the committee’s scrutiny role.

**3. BACKGROUND**

Audit Scotland published “Fraud and irregularity update 2019/20” in June 2020. Copies are available from the [Audit Scotland website](#) or from the elected members section of the council’s intranet.

**4. FRAUD AND IRREGULARITY UPDATE 2019/20**

Audit Scotland recommends:

- Public bodies should be alert to emerging fraud risks and where appropriate work with others to help alleviate these risks.
- Public bodies should consider whether the weaknesses in internal control that facilitated the cases identified in this report may also exist in their own organisations and take the required corrective action.
- Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds and errors highlighted in this report

The Audit Scotland report provides information on a number of fraud cases, including the internal control weaknesses that contributed to the fraud occurring. These are summarised in columns 1 and 2 of the following table. A high-level overview of the Council’s position in relation to these internal control areas are summarised in the third column of the following table.

Common themes in these fraud cases included people not following procedures, lack of scepticism, lack of management checking, weak security arrangements, lack of awareness of fraud vulnerabilities, lack of arrangements in place to review empty properties, not identifying an unauthorised change in tenants, weak procurement controls.

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Invalid supplier</b> A third party defrauded £6,400 from a central government body by requesting a fraudulent payment.</p>	<p>The finance team did not spot signs that the email was not genuine. There was a lack of:</p> <ul style="list-style-type: none"> <li>• detailed challenge of the email address and content on this occasion</li> <li>• scepticism applied to the request for transfer of funds.</li> </ul>	<p><b>Our procedures</b> The procedures in place should prevent this type of fraud</p> <p><b>Recent Counter Fraud activity</b> Intelligence on e-mail scams is shared with Payments Section. Fake emails received by Payments Section are reported to the National Cyber Security Centre.</p> <p><b>Recent Internal Audit activity</b> We have recently provided the Data Processing team with advice on the process for verifying changes to supplier details, and a reminder of the process will be issued to all services.</p>
<p><b>Change of bank details</b> A third party defrauded over £5,000 from a council by redirecting salary payments.</p>	<p>The procedures in place to check the validity of bank detail changes had not been followed.</p>	<p><b>This type of fraud was also reported last year (Refer Report 160/20).</b></p> <p><b>Our procedures</b> Bank details are updated by employees through their own secure on-line access to Resourcelink. Since February 2020 all staff have been able to do this, and anyone requesting payroll staff to make this change would be directed to make the change themselves. Therefore, only the individual employee can amend their own bank details for their salary payment.</p> <p><b>Recent Counter Fraud activity</b> No recent investigations undertaken, or allegations received.</p> <p><b>Recent Internal Audit activity</b> No recent audits covering this area.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Misuse of a mobile telephone</b> A social care customer misused a council mobile phone resulting in a cost of almost £6,000 to the council.</p>	<p>The telephone did not have a PIN authorisation code to prevent unauthorised access.</p>	<p><b>Our procedures</b></p> <p>Personnel Advisory Bulletin 70 – Mobile Phone Policy &amp; Guidance states that: -</p> <p>“Security lock codes should be used where available to prevent misuse of Council mobiles”</p> <p>and</p> <p>“The council continuously monitors the use of mobile phones. It does this to: identify unauthorised, improper or criminal use of the facilities; identify breaches of this policy; where mobiles have internet/email access, maintain the security and confidentiality of its information technology systems; help maintain the effective operation of these systems; check service standards; allow managers to control revenue spend.</p> <p>To achieve these purposes the council monitors: call records via invoices &amp; management reports; internet downloads, data volumes, and times and dates.”</p> <p><b>Recent Counter Fraud activity</b> No recent investigations undertaken, or allegations received.</p> <p><b>Recent Internal Audit activity</b> No recent audits covering this area.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Council tax income</b></p> <p>Three separate Council Tax payers defrauded over £30,000 of council tax.</p>	<p>The councils did not have adequate arrangements in place to review long-term empty properties or second homes.</p>	<p><b>Our procedures</b></p> <p>We do not carry out reviews of long term empty properties – this would require canvassing every property, which is impractical with the resources available. Our Revenues Team used to carry out a rolling review program of various discounts/exemptions, but due to the significant reduction in staffing resources following the service review we no longer have the resources to do this.</p> <p>All Council Tax liability works on the basis of the liable party providing us with information regarding their circumstances as they are obliged to do; the information can come from many different sources e.g. homeowners, tenants, landlords, solicitors, so there is a lot of cross-checking of information undertaken. If anything is brought to our attention regarding changes to eligibility for discounts/exemptions, we simply amend the liability, re-bill, and if necessary the debt would escalate to the Sheriff Officer.</p> <p>Angus Council no longer offer discount on a second home (since 2017) therefore that type of fraud would not occur.</p> <p>The National Fraud Initiative may identify vacant properties in Angus should a former occupant be matched at a property in a different council area.</p> <p><b>Recent Counter Fraud activity</b></p> <p>An investigation completed in 2020 found a Council Tax payer had defrauded £4,737 from the discount and unoccupied property schemes.</p> <p><b>Recent Internal Audit activity</b></p> <p>Council Tax system reviewed in 2020/21, however the scope of the audit did not cover long-term empty properties or second homes.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Housing rent</b> A former tenant defrauded a council of an estimated £93,000.</p>	<p>The council did not identify an unauthorised change in tenants.</p>	<p><b>Our procedures</b> The Council's Rent Arrears Escalation policy would flag up potential issues where either Revenues &amp; Benefits and/or Housing would investigate the arrears. If Universal Credit or Housing Benefit are being claimed, any name changes would trigger a cross-check; Council Tax liability would also be cross-referenced if any concerns had been raised. In terms of concerns about household composition, we have detailed local knowledge as a result of reducing officer patch sizes to an average of only 150 properties per officer, meaning closer contact with tenants and neighbours. We carry out mid-term inspections when we check household details; this is not being fully implemented at present due to the pandemic, but we hope to visit tenants at least 1-2 times per annum. Tenancy agreements state that taking a lodger, or sub-tenant, or assignation, etc. should be requested in writing. Housing have a good relationship with Internal Audit and Counter Fraud and have used their staff in the past to carry out random checks on tenants, etc. Where a suspicion of tenancy fraud arises a joint investigation is undertaken by Counter Fraud and Housing Service staff.</p> <p><b>Recent Counter Fraud activity</b> 2019/20 saw 7 properties recovered for re-let after joint Counter Fraud / Housing Service investigations.</p> <p><b>Recent Internal Audit activity</b> No recent audits covering this area.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Redundancy payment</b></p> <p>A council paid out a redundancy payment to a former employee that was overstated by £19,000.</p>	<p>There were no controls in place to ensure the correct figure was input to the payroll system.</p>	<p><b>Our procedures</b></p> <p>When a request for voluntary redundancy is made a calculation form is completed. This is checked by two people, usually one from HR and one from Payroll. The form details which Statutory Table is to be used, and the calculation is made using the length of service, age and current salary. The form is approved by the relevant service Director, Director of HR, Digital Enablement, IT &amp; Business Support, and the Director of Finance.</p> <p><b>Recent Counter Fraud activity</b></p> <p>No recent investigations of this type undertaken.</p> <p><b>Recent Internal Audit activity</b></p> <p>A sample of ER/VR payments checked annually by either Internal or External Audit.</p>
<p><b>IT equipment</b></p> <p>A member of staff in a college is alleged to have stolen IT equipment. The present value of IT equipment which cannot be accounted for is estimated to be £600,000 (exclusive of VAT).</p>		<p><b>Our procedures</b></p> <p>Revised IT Hardware Inventory procedures implemented following Counter Fraud investigation (see below).</p> <p><b>Recent Counter Fraud activity</b></p> <p>A 2019/20 investigation into missing laptops found that security arrangements were inadequate, and processes were weak. Improvements were recommended and are being implemented. Laptops may be missing due to human error or theft.</p> <p><b>Recent Internal Audit activity</b></p> <p>A review of IT Hardware Inventory procedures was scheduled as part of the 2019/20 Internal Audit Plan. However, this has been postponed to allow time for the recommendations of the recent fraud investigation (see above) to be implemented.</p>

**5. FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report.

**6. EQUALITY IMPACT ASSESSMENT**

An Equality Impact Assessment is not required, as this report is providing reflective information for elected members.

**NOTE:** No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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