

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 25 APRIL 2023

CIIA REPORT – FRAUD IS ON THE RISE

REPORT BY CATHIE WYLLIE – SERVICE LEADER, INTERNAL AUDIT

ABSTRACT

This report presents the Chartered Institute of Internal Auditor's (CIIA) Audit Committee Briefing "Fraud is on the rise" report, with an update on Internal Audit's consideration of the Council's arrangements in relation to the key questions posed in the report.

1. RECOMMENDATION

It is recommended that Scrutiny and Audit Committee scrutinise and note the information presented.

2. ALIGNMENT TO THE COUNCIL PLAN

The contents of this report provide the Committee with information to help them understand fraud risks that could pose a threat to the achievement of the objectives in the Council Plan, and the mitigating actions that are in place.

3. BACKGROUND

3.1 The report at appendix 1 provides an overview of current fraud risks, as assessed by the Chartered Institute of Internal Auditors.

3.2 The report provides information to help Members understand the fraud landscape and how the Council should be working to counter fraud risks. The Council has a number of policies in place to counter fraud risk, and training is provided to staff. The Counter Fraud Team within the Internal Audit Service undertake proactive and reactive work, and this is reported to the Scrutiny and Audit Committee twice per year in June and November. The June report includes an assessment of the Council's counter fraud arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, and discussion of the work planned for the coming year.

3.3 The council's Counter Fraud and Corruption Policy states that we have zero-tolerance to fraud and corruption. It is highlighted that fraud risk identification and management is the responsibility of services. Other key documents in place are:

- Whistleblowing Policy
- Fraud Response Plan
- Anti-Bribery Policy
- Anti-Money Laundering Policy
- Employee Code of Conduct
- Declaration of Interests Register
- Gifts & Hospitality Register

4. CURRENT POSITION

The CIIA report includes some questions for audit committees to ask of Internal Audit. These are answered below.

Question	Response
<p>Do you use the fraud triangle to anticipate fraud risk within your organisation?</p>	<p>We make use of the fraud triangle's opportunity, motivation and rationalisation factors in assessing the risk</p>
<p>The triangle looks at Opportunity, Motivation and Rationalisation (see Appendix 1, page 5).</p>	<p>The fraud triangle is featured in the Council's fraud eLearning module and will be introduced in the fraud awareness training for services.</p> <p>In planning Internal Audit and Counter Fraud activity we use a number of sources including CIPFA's Fraud and Corruption Tracker and the CIIA's annual Risk in Focus Report. We also use intelligence received through our professional networks.</p>
<p>Have you considered the impacts of the pandemic on fraud risk and has this been discussed with the board, audit committee and senior management?</p>	<p>The potential enduring impacts of the pandemic on fraud risk include where remote working causes a potential information or cyber security risk, a risk in internal fraud as employees face financial pressure, an increased risk of payment diversion attempts, the relaxation of procurement controls, an increased risk of phishing emails and scams, the financial vulnerability of citizens, and the loss of staff and replacement with less experienced personnel. These risks are recognised by management and have been considered by Internal Audit in planning our work for both the Internal Audit and Counter Fraud teams.</p> <p>The impacts of the pandemic, including on fraud risk, have been considered since 2020 by CLT and various Council committees, including the Scrutiny and Audit Committee. Internal Audit has also considered this in planning internal audit and counter fraud work.</p> <p>Fraud risk and response is reported to the Scrutiny & Audit Committee. A fraud risk assessment document has been drafted and is currently being shared internally prior to completion.</p>

<p>Have you considered the impacts of current geopolitical and economic challenges, such as the war in Ukraine, talent shortages and pressures on household incomes from rising inflation?</p>	<p>The impacts of current geopolitical and economic challenges were considered by counter fraud in drafting of the fraud risk assessment document. Internal audit also considers this in planning work and in the overview that is taken on an ongoing basis looking at the overall governance arrangements that are in place within the Council. This includes consideration of what these issues are, how they impact the Council, and how the Council responds to them.</p> <p>The war in the Ukraine has been attributed with creating an increased risk of cybercrime. The conflict has caused higher commodity prices which contributed to the increase in UK inflation. This has added to the pressures on household incomes and such pressures can add to the motivation to commit fraud integral to the fraud triangle model.</p> <p>Where talent shortages exist staff retention and recruitment issues can arise. Where a shortfall in staff and less experienced supervisory staff are an issue then a risk of fraud controls being circumvented arises.</p>
<p>Have fraud attempts within the organisation increased because of the pandemic, hybrid/remote working and economic pressures and how has the organisation responded?</p>	<p>Fraud attempts have increased because of the pandemic. Payment of support grants was carried out by the Council on behalf of the Scottish Government. The organisation responded with a series of pre-payment checks in advance of payments being made and this had a preventative value for each iteration of the business support scheme. Limited perpetrated and attempted fraud was identified in these schemes in Angus. Work carried out by the Counter Fraud Team relating to the support grants we administered has been reported to Scrutiny and Audit Committee on a number of occasions either specifically or in the annual update in June.</p> <p>The onset of remote working has brought about an increase in concerns over working time fraud being reported to the Council's Counter Fraud Team (CFT) who have supported services with intelligence, advice and formal investigation. Though increased in numbers, the incidence of referrals is low relative to the scale of our operations.</p> <p>Economic pressure on employees and citizens is a factor in creating the pressure which can result in persons committing fraudulent acts. The Council responds by CFT activity including proactive data analysis to identify financial fraud in areas including benefits, Council Tax Reduction/Discounts and payments.</p> <p>We also respond by maintaining employee fraud awareness, training and the maintenance of counter fraud & whistle-blowing policies.</p>

<p>Are you preparing for new regulatory requirements in the BEIS (Department for Business, Energy and Industrial Strategy) white paper and other proposed legislation?</p> <p>Are you able to provide further assurance to ensure that directors comply with new legal obligations?</p>	<p>The Council has arrangements for new legislation to be identified and implications for the Council assessed and addressed. The Council complies with the CIPFA code in areas including countering fraud and corruption, and the production of final accounts.</p> <p>This white paper's consultation has concluded with 5 key conclusions around emerging fraud, the fraud regulatory landscape, fraud risk assessment, positive fraud culture and whistleblowing arrangements. Although this is aimed primarily at private companies, any changes in governance practices will be reflected in CIPFA codes of practice and reviewed in due course. The Council's arrangements in the key areas identified comply with current good practice.</p>
---	--

5. FINANCIAL IMPLICATIONS

There are no direct financial implications.

6. EQUALITY IMPACT ASSESSMENT

A screening Equality Impact Assessment has been done and is attached. A full Equality Impact Assessment is not required, as this report is providing reflective information for elected members.

Background Papers

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

REPORT AUTHOR Cathie Wyllie – Service Leader Internal Audit
EMAIL DETAILS ChiefExec@angus.gov.uk

List of Appendices:

Appendix 1- CIIA audit committee briefing – “Fraud is on the rise; step up to the challenge”

AUDIT COMMITTEE SERVICE

EXCLUSIVE AUDIT COMMITTEE BRIEFING

Fraud is on the rise: Step up to the challenge

August 2022



Chartered Institute of
Internal Auditors

Overview

The temptations – and opportunities – to commit fraud have risen significantly. The disruption caused by war in Ukraine, soaring inflation and a cost-of-living crisis, at a time of changing work patterns, problems with supply chains and a global shortage of talent are a few of the issues increasing fraud risks in every organisation and sector. Now more than ever, organisations and internal audit functions must be on the front foot to tackle fraud risk.


The fraud landscape has therefore changed and audit committees must focus on what is being done to mitigate this evolving and rising risk. Organisations that have not hitherto regarded fraud as a high-risk priority must re-evaluate how they manage and communicate the risks. Our research shows that, although the generic risk of fraud has been recognised as important, the response to it is inconsistent.

Do not underestimate the potential consequences. High-profile corporate collapses linked to fraud, including those of Patisserie Valerie, Carillion and Wirecard, show how serious the financial and reputational impacts can be.

New regulations are in the pipeline. The UK government's white paper on "Restoring trust in audit and corporate governance" includes recommendations on fraud, emphasising the responsibilities of company directors to prevent and detect it. The government's Economic Crime Plan (2019-22) sets out intentions to combine the capabilities and expertise of the public and private sectors to collaborate on a new approach to fraud and economic crime. The Economic Crime (Transparency and Enforcement) Act 2022 was fast-tracked through Parliament in March in reaction to Russia's invasion of Ukraine, and the Queen's Speech in May introduced an Economic Crime and Corporate Transparency Bill.

Expect new legislation and more scrutiny on the steps organisations take to manage and mitigate fraud risk.

Organisations that have not traditionally regarded fraud as a high-risk priority must re-evaluate how they manage and communicate the risk. It is apparent from our research that, although the generic risk of fraud has been recognised as important, the response to it is inconsistent.



To read the full report, [click here](#)

Top take-aways from the report



- 1. Fraud is on the rise.** Ask what further assurance is needed on emerging fraud risks.
 - 2. The fraud regulatory landscape is changing.** Expect more scrutiny and demands for accountability. Organisations and internal audit functions should reflect on these changes and how they may affect their policies and audit plan.
 - 3. Boards, audit committees and senior management should conduct a thorough fraud risk assessment, tailored to the business's industry and operations.** This should be refreshed periodically.
 - 4. Boards, audit committees and senior management have a critical role in establishing and implementing a positive fraud culture underpinned by the right tone from the top.**
 - 5. A positive fraud culture includes encouraging transparency and openness when talking about fraud** – are there speak-up channels (Whistleblowing arrangements) where employees feel they can raise concerns without retaliation, are the consequences of fraud clear and do staff believe that internal controls to prevent and detect fraud protect them as well as the organisation?
-

Key recommendations for boards/audit committees

Pay close attention to the organisation's anti-fraud control framework to ensure it is effective at preventing, detecting and responding to fraud. Boards, audit committees have a critical role in developing effective governance processes and setting the right tone from the top. These are the foundations of fraud risk management.

- ▶ The board and audit committee should ensure that management implements policies that encourage ethical behaviour across the organisation.
- ▶ The board and audit committee should monitor the effectiveness of the organisation's fraud risk-management programme. Ensure this is regularly on the agenda.
- ▶ The board and the audit committee should expect senior management to report on the steps taken to prevent and detect fraud. Senior management has operational responsibility for designing and implementing the organisation's fraud risk management programme, including conducting fraud risk assessments and implementing adequate internal controls.
- ▶ Senior executives should support the board and audit committee to develop a positive fraud awareness and prevention culture. Check that managers talk about fraud regularly, set and communicate policies on the consequences of fraud, and that employees understand how to raise concerns without fear of retaliation.
- ▶ Expect your internal audit function to inform and challenge the board and the audit committee about the organisation's response to fraud. If they are not doing this, ask why not.
- ▶ Ask internal audit to highlight the key issues to management and report on how well they are monitored and mitigated. Ask where fraud risks are emerging and the impact they could have.
- ▶ Ask what has changed and how management actions/policies have responded. Does the organisation conduct regular fraud risk assessments? This is a basic step.
- ▶ Is the organisation prepared for new regulations, scrutiny and accountability for fraud risk from the government, regulators and the public? Is the board aware of regulations in the pipeline and their potential impact?



How can internal audit support boards/audit committees?

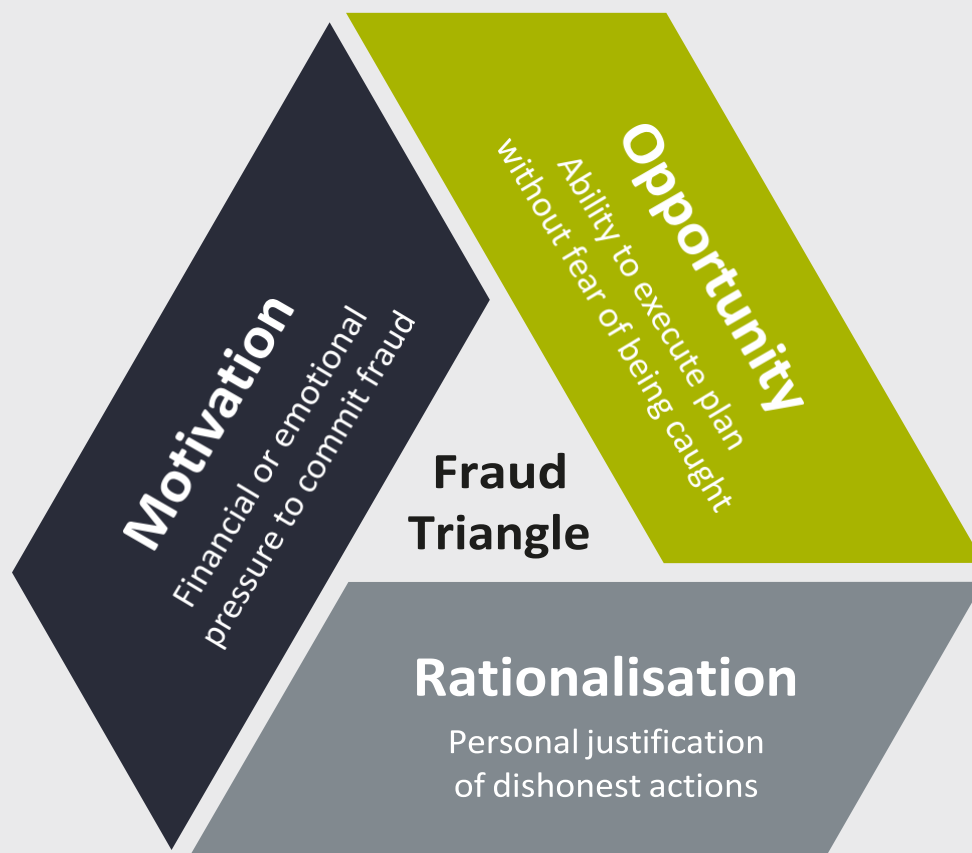
- ▶ Expect internal audit to provide objective and independent assurance that the organisation has conducted a fraud risk assessment and has effective internal controls to prevent and detect fraud.
- ▶ Internal audit can provide independent assurance over the design and effectiveness of the risk appetite framework and tolerance levels for fraud. It can also encourage debate around how to define tolerance levels and what a proportionate response looks like.
- ▶ Ask whether your internal audit function can provide a more proactive, "big picture" approach to fraud risk. For example, does it constantly revisit the fraud triangle to anticipate fraud, and could internal audit challenge the board, audit committee and senior management more about where risks may occur?
- ▶ Could your internal audit team use its skills and knowledge of the organisation to offer more support, for example, conducting data analysis in search of anomalies?
- ▶ Does internal audit help to raise awareness around fraud, promote whistleblowing best practice, and act as a trusted adviser to the board, audit committee and senior management?

Questions for the audit committee to ask internal audit



In the last two years, businesses have been under considerable financial and operational pressure. This has created an ideal environment for fraudulent activity, where all elements of the fraud triangle (motivation, opportunity, and rationalisation) in which fraud thrives have been heightened.

This is expected to continue – and get worse – as the war in Ukraine rages on, inflation in the UK hits a 40-year high, and the cost of living steadily increases. The world is in turmoil and fraudsters will take advantage of it. So now, more than ever, fraud should be on the radar of all organisations and their internal audit functions.



Do you use the fraud triangle to anticipate fraud risk within your organisations?

Questions for the audit committee to ask internal audit



Have you considered the impacts of the pandemic on fraud risk and has this been discussed with the board, audit committee and senior management?

Have you considered the impacts of current geopolitical and economic challenges, such as the war in Ukraine, talent shortages and pressures on household incomes from rising inflation?



Have fraud attempts within the organisation increased because of the pandemic, hybrid/remote working and economic pressures and how has the organisation responded?

Are you preparing for new regulatory requirements in the BEIS white paper and other proposed legislation? Are you able to provide further assurance to ensure that directors comply with new legal obligations?





Key facts and figures

5%

In its most recent global survey, the Association of Certified Fraud Examiners (ACFE) estimated that organisations lose 5% of their revenue to fraud each year.

£190bn

The 2019 Financial Cost of Fraud report estimates the cost of fraud to the UK to be £130bn-£190bn a year.

1/3

According to analysis by Which?, cases of fraud reported to Action Fraud rose by a third in 2020. The full extent of fraud committed during the pandemic is probably higher.



People are more likely to fall victim to fraud or cyber offences than any other crime, according to the Office for National Statistics (ONS).

80%

of reported fraud in the UK is cyber-enabled.

51%

of respondents to a PwC Ireland survey had experienced fraud in the past two years – a record high. Cybercrime is the most prevalent type of fraud committed in Ireland (69%).

63%

Scottish government figures show a sharp uplift (63%) in fraud cases from April 2020 to March 2021 compared to the previous year.

22%

according to the ACFE Report of the Nations 2020, the wrong tone from the top was the primary risk factor in 22% of all financial statement frauds.

42%

of frauds were detected by tip-offs, according to the ACFE 2022 Report of the Nations.

AUDIT COMMITTEE SERVICE

About the Chartered Institute of Internal Auditors

The Chartered Institute of Internal Auditors is the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland.

We have 10,000 members in all sectors of the economy.

First established in 1948, we obtained our Royal Charter in 2010. Over 2,000 members are Chartered

Internal Auditors and have earned the designation CMIIA. About 1,000 of our members hold the position of head of internal audit and the majority of FTSE 100 companies are represented among our membership.

Members are part of a global network of 200,000 members in 170 countries, all working to the same International Standards and Code of Ethics.

Stayconnected



**Chartered Institute of
Internal Auditors**

Wimbledon Business Centre
The Old Town Hall
4 Queen's Road
Wimbledon
SW198YB

tel 020 7498 0101
email info@iia.org.uk



Chartered Institute of
Internal Auditors