



Audit Scotland report: Fraud and irregularity 2021/2022

Committee Audit and Standards

Date of meeting 9 September 2022

Date of report 15 August 2022

Report by Chief Executive

1. Object of report

To advise the committee on the issue of an Audit Scotland report titled '*Fraud and irregularity 2021/2022*' and outline SPT's response to the key messages and recommendation contained therein.

2. Background

In July 2022, Audit Scotland published a report titled '*Fraud and irregularity 2021/2022*'.

The report sets out examples of the various categories of fraud and irregularity reported during 2021/22 and the control weaknesses which contributed to these cases.

The report adds that public bodies are encouraged to consider whether the weaknesses in internal control that facilitated each of the cases highlighted in this report may also exist in their own arrangements and take the required corrective action.

The Audit Scotland report can be found at:

<https://www.audit-scotland.gov.uk/publications/fraud-and-irregularity-202122>

3. Outline of findings

There are four key messages outlined in the Audit Scotland report:

The Covid-19 pandemic introduced many challenges for the Scottish public sector - Public bodies delivered both existing and new services in new working environments. These changes resulted in additional fraud risks for public bodies to manage.

New challenges - Despite these new challenges, auditors have found that most bodies have responded well by introducing new systems, procedures, and controls.

The Covid-19 pandemic has seen new fraud introduced - Fraudsters have targeted the grants to support businesses through the pandemic. Steps have subsequently been taken to reduce fraud and error in these schemes by grant-paying bodies and government.

Weaknesses in controls contributed to fraud and irregularities - Despite many challenges facing public bodies over the past two years because of the Covid-19 pandemic, the value of fraud and irregularity detected remains low compared to the 2021/22 annual Scottish budget.

The report recommends that public bodies should ensure effective counter-fraud arrangements are in place. These include:

- having effective governance and oversight arrangements for counter-fraud;
- understanding the current and emerging counter-fraud risks facing the body;
- regularly reviewing their counter-fraud strategy and counter-fraud plan;
- regularly assessing and reviewing internal controls and governance arrangements to ensure they remain effective;
- considering whether the risks and weaknesses in controls identified in this report may exist in their organisation and taking appropriate corrective actions; and
- reviewing the independent reviews and associated recommendations that were commissioned by the Scottish Environment Protection Agency (SEPA) following a ransomware attack on its systems.

Furthermore, the report recommends auditors should confirm that:

- the governance arrangements in place in their audit clients are effective, regularly reviewed and amended as appropriate for new fraud risks; and
- internal controls are operating effectively to help prevent fraud and irregularity, including the examples detailed in this report.

SPT is expected to consider Audit Scotland reports and recommendations as a key stage in its governance framework. SPT has and continues to act to mitigate fraud risks identified in the Audit Scotland report, including:

- understanding of fraud risks;
- counter fraud strategy in place;
- governance arrangements are in place with oversight of counter-fraud arrangements;
- appropriate fraud prevention and detection processes in place;
- regularly carrying out a fraud risk assessment to identify vulnerable areas;
- Internal Audit regularly review and evaluate internal controls to ensure they operate effectively and can adapt to new or emerging risks;
- staff are appropriately trained in their area of work;
- processes are in place to report any suspected fraud or error with effective fraud response arrangements in place;
- review instances of fraud or error for any lessons that could be learnt;
- use data analytics to help identify weakness in controls;
- participate in data matching from the National Fraud Initiative (NFI) and analytical procedures to help identify fraud or error;
- work collaboratively with partners to prevent and detect fraud; and
- continue to enhance digital systems and protect them utilising the latest guidance from bodies such as the National Cyber Security Centre is followed.

4. Committee action

The committee is asked to note the contents of this report and the Audit Scotland report titled '*Fraud and irregularity 2021/2022*' and SPT's steps to mitigate against the risks identified.

5. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>None.</i>
Financial consequences	<i>None.</i>

Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>As detailed in the report.</i>
Climate Change, Adaptation and Carbon consequences	<i>None.</i>

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