

**South Ayrshire Council**

**Report by Head of Finance, ICT and Procurement  
to Audit and Governance Panel  
of 4 October 2023**

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**Subject:        Audit Scotland: Fraud and Irregularity 2022/23**

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**1.        Purpose**

1.1        The purpose of this report is to advise the Panel of the Audit Scotland report 'Fraud and Irregularity 2022/23'.

**2.        Recommendation**

**2.1        It is recommended that the Panel considers the findings outlined in the Audit Scotland report 'Fraud and Irregularity 2022/23' (attached as Appendix 1).**

**3.        Background**

3.1        In July 2023, Audit Scotland published a report entitled 'Fraud and Irregularity 2022/23'. The key messages as summarised in the report are as follows:

3.1.1        During 2022/23, 12 cases of fraud and irregularity valued over £139,000 were identified. Weaknesses in internal controls contributed to each case identified; and

3.1.2        Auditors have found that public bodies have effective systems, procedures, and controls in place to help prevent and detect the majority of fraud and irregularity.

3.2        Recommendations as summarised in the report are as follows:

3.2.1        Public bodies should ensure they have effective counter-fraud arrangements. These include:

- undertaking a fraud risk assessment to identify areas at risk;
- having effective counter-fraud governance arrangements;
- having a counter-fraud strategy and regularly reviewing counter-fraud plans;
- regular assessment and review of internal controls; and
- considering the control weaknesses identified in this report.

3.2.2

### 3.2.2 Auditors should review:

- whether counter-fraud governance arrangements are effective and regularly reviewed and revised as necessary; and
- the effectiveness of counter-fraud controls along with the details on the control weaknesses identified in this report.

## 4. Proposals

4.1 It is proposed that Members consider and note the terms of the Audit Scotland report.

4.2 In terms of South Ayrshire Council's own Governance and counter fraud arrangements, it should be noted that:

- the Council continues to have robust governance and scrutiny arrangements in place, which now includes a hybrid video conferencing facility;
- the Council continues to take part in regular National Fraud Initiatives data matches to prevent and detect fraud;
- an Integrity Group, attended by senior officers of the Council evaluates and take appropriate mitigating actions in respect of fraud and irregularities; and
- activity reports from the Council's Corporate Fraud team are submitted to the Audit and Governance Panel on a 6-monthly basis.

## 5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

## 6. Financial Implications

6.1 Not applicable.

## 7. Human Resources Implications

7.1 Not applicable.

## 8. Risk

### 8.1 *Risk Implications of Adopting the Recommendations*

8.1.1 There are no risks associated with adopting the recommendations.

### 8.2 *Risk Implications of Rejecting the Recommendations*

8.2.1 Rejecting the recommendations may impact on the reputation of the Council.

## **9. Equalities**

- 9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as Appendix 2.

## **10. Sustainable Development Implications**

- 10.1 ***Considering Strategic Environmental Assessment (SEA)*** This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

## **11. Options Appraisal**

- 11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

## **12. Link to Council Plan**

- 12.1 The matters referred to in this report contribute to Priority 4 of the Council Plan: Efficient and effective enabling services.

## **13. Results of Consultation**

- 13.1 There has been no public consultation on the contents of this report.
- 13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Resources and Performance, and the contents of this report reflect any feedback provided.

**Background Papers**    **None**

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**Date:**    **20 September 2023**

# Fraud and irregularity

Annual report 2022/23



# Contents

Key messages	3
Recommendations	4
Fraud and irregularity identified during 2022/23	5
Further information	14

## Accessibility

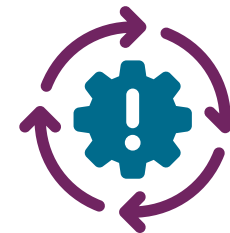
You can find out more and read this report using assistive technology on our [website](#).

For information on our accessibility principles, please visit: [www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility).

# Key messages



- 1** During 2022/23, 12 cases of fraud and irregularity valued over £139,000 were identified. Weaknesses in internal controls contributed to each case identified.



- 2** Auditors have found that public bodies have effective systems, procedures and controls in place to help prevent and detect the majority of fraud and irregularity.

# Recommendations

## **Public bodies should ensure they have effective counter-fraud arrangements.**

### **This includes:**

- undertaking a fraud risk assessment to identify areas at risk
- having effective counter-fraud governance arrangements
- having a counter-fraud strategy and regularly reviewing counter-fraud plans
- regular assessment and review of internal controls
- considering the control weaknesses identified in this report.

### **Auditors should review:**

- whether counter-fraud governance arrangements are effective and regularly reviewed and revised as necessary
- the effectiveness of counter-fraud controls along with the details on the control weaknesses identified in this report.

# Fraud and irregularity identified during 2022/23

Auditors provide Audit Scotland with details of fraud and irregularity discovered in their audited bodies. This report sets out the cases identified during 2022/23 including the details of the control weaknesses which contributed to these cases.

## Aims of this report

**1.** This report shares information where control weaknesses have contributed to fraud and irregularity. This report aims to help prevent similar situations happening in other bodies by sharing the details and highlighting weaknesses in internal controls. Other cases of fraud or irregularity may exist that were not facilitated by weaknesses in internal controls. External auditors<sup>1</sup> identified 12 cases of fraud and irregularity totalling over £139,000 in audited bodies in 2022/23 (seven cases totalling £401,500 were identified in 2021/22). This level of fraud and irregularity is very small when compared to the £56.5 billion Scottish budget.<sup>2</sup>

**2.** The cases included in this report have been investigated internally but will not necessarily have been reported to Police Scotland or to have been proven as fraud in a court of law.

**3.** This report encourages public bodies to consider the cases included in this report and reflect whether the same control weaknesses exist in their own systems. Public bodies are also encouraged to regularly review their counter-fraud arrangements to ensure they remain effective against both existing and newly emerging types of fraud and irregularity.

**4.** The case studies in this report aim to help auditors consider and review the effectiveness of the counter-fraud governance arrangements in their audited bodies.

<sup>1</sup> External auditors report frauds, or suspected frauds, to Audit Scotland where they are caused or facilitated by weaknesses in public bodies' internal controls. Frauds and irregularities are considered significant where the value of the loss is over £5,000 or where it is of significance owing to the nature of the activity.

<sup>2</sup> [Scottish Budget 2022 to 2023: Your Scotland, Your Finances – guide](#)

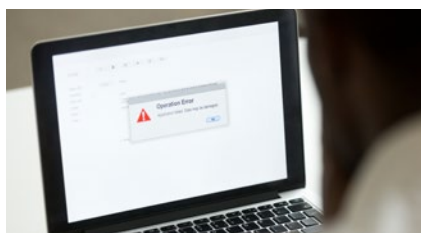


## Fraud and irregularity cases identified in 2022/23

Fraud and irregularity identified during 2022/23 totalled over £139,000 and fell into the following categories:



**5 cases**  
Grant payments



**1 case**  
Invalid supplier



**1 case**  
Procurement card



**1 case**  
School funds



**3 cases**  
Payroll and pensions



**1 case**  
Theft

## Control weaknesses

The following control weaknesses contributed to the fraudulent and irregular activity identified during 2022/23.



Not checking all details on applications for funding



Lack of management checking



No independent confirmation with the customer before changing bank account details



Not following procedures



A lack of segregation of duties



Weak authorisation processes



Lack of awareness of potential fraud risks



Poor security arrangements

Specific details of the fraud and irregularity cases identified during 2022/23 are on the following pages.



# Expenditure

Expenditure fraud relates to cases where a body has incurred additional expenditure because of fraud. This may be due to invalid suppliers, fictitious invoicing, or the redirection of payments intended for legitimate suppliers.

## Case study 1. Grant payments

**Four unknown third parties made four fraudulent grant applications for Covid-19 support totalling £51,000.**

### Key features

Supporting documentation and proof of bank account evidence was provided. The frauds were possible as there were small differences in the business name and email address which were not picked up. The bank accounts used to facilitate the fraud were included in a suspicious activity report; however, due to pressure to ensure grants were paid without delay the applications were processed and paid despite this.

In one case, the fraud was identified after the grant payment was rejected by the bank. In the other cases, a retrospective data-matching exercise identified the frauds.

Retrospective checking including use of a national data-sharing facility has since been carried out on all Covid-19 grant payments.

## Case study 2. Grant payments

**An unknown individual compromised a grant recipient's email account and committed bank mandate fraud. A grant of £12,300 was subsequently paid to the fraudulent bank account.**

### Key features

After informing the grant applicant that their application was successful, the council received a request to change the grant recipient's bank account details.

The request came from the genuine grant recipient's email account and contained an attachment on headed paper requesting the change. The bank details were then changed.

The fraud was identified when the genuine grant recipient reported non-receipt of the funds.

The fraud could have been prevented if the council had contacted the grant recipient to confirm the bank account changes.

The council have since issued bank mandate guidance for staff and existing controls have been strengthened.

### Case study 3. Invalid supplier

**A third party defrauded over £11,000 from a public body by purporting to be a supplier to the body.**

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#### Key features

The public body received a request by email to amend a supplier's bank account details. The supplier's email address had been intercepted by a fraudster who requested the change.

The fraud was possible as the public body did not telephone the supplier to verify the change of bank details.

The issue was identified when the genuine supplier queried why the payment had not been received.

The public body's counter-fraud team has reviewed the process for changing suppliers' bank account details and improvements have been made to procedures.

The matter has been reported to Police Scotland.

### Case study 4. Procurement card

**A manager misused a procurement card to the extent of £5,450 to withdraw cash fraudulently and to make fraudulent payments.**

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#### Key features

The fraud was identified when the manager was on leave and another member of staff looked for the cash.

The fraud was possible as management did not check procurement card receipts or supporting documentation prior to approving expenditure.

The body is reviewing the number of procurement cards holders and approvers and staff are required to complete refresher training on procurement cards. The manager has been dismissed.

## Case study 5. School funds

### A head teacher embezzled over £5,300 from a school fund.

#### Key features

The teacher fraudulently used the school fund purchase card, which was held in the name of another member of staff, for personal purchases. The teacher also falsified an invoice to disguise the payment of a personal membership fee, and misappropriated school fund concert cash that had been entrusted to the teacher.

The fraud was identified after concerns were raised regarding misappropriation of the school fund purchase card.

Subsequent investigations identified that high-value items purchased from the school fund could not be located on the school premises. These items were subsequently recovered from the teacher's home.

The fraud was possible as, due to the seniority of the teacher; the actions were not challenged by other staff. In practice, there was no segregation of duties.

The council has:

- revised school fund procedures
- introduced random sampling of purchase card transactions
- provided fraud awareness and procurement training to school staff.

The case has been reported to the Procurator Fiscal. The teacher resigned following the instigation of disciplinary proceedings.

Items to the value of £1,600 have been recovered.



# Payroll and pension fraud

Payroll and pension fraud relates to people receiving payroll or pension payments to which they are not entitled.

## Case study 6. Payroll fraud

**A council employee failed to report a £25,000 payroll overpayment over a three-year period.**

### Key features

An error in processing a reduction in working hours resulted in an increase to the employee's salary. The error was not identified by the authorising officer, and the employee did not report the overpayment.

The fraud was identified during a data check carried out by the council. The fraud was not detected earlier as the normal annual data checks were suspended during the pandemic.

The council has issued reminder instructions to staff processing and authorising payroll amendments to emphasise the importance of ensuring that details are correct. A new checking process has been introduced that requires staff to verify any change of working hours requests to amendment forms, contracts, and payroll details.

Disciplinary action has been taken and recovery action is in process.

## Case study 7. Payroll fraud

**An ex-council employee failed to report a £10,500 payroll overpayment over a seven-month period.**

### Key features

The employee left the council's employment and moved to a health board following a secondment period. However, the council salary continued to be paid for seven months after the employee left the council.

The fraud was identified when the health board queried an invoice for recovery of the employee's costs.

The fraud was possible as the employee's manager in the council failed to complete a termination form.

The manager has been reminded of the requirement to complete termination forms. The council has reintroduced a previously suspended monthly report requiring managers to confirm the employment status of employees in their service.

A repayment plan is in place to recover the overpayment.

## Case study 8. Pension payments

**A third party claimed over £6,600 from a widower's pension following his death.**

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### Key features

The fraudster had notified the pension fund of a change of bank details for receipt of the pension after the pensioner had died. This notification came from the same email account used for the original bank mandate. The personal details provided, along with the signature, matched those on the original bank mandate and it was processed.

The fraud was identified as part of the National Fraud Initiative (NFI).

The fraud was possible as there was limited consideration given to the potential risks associated with the receipt of new bank details. An internal audit investigation identified recommendations to help strengthen controls around changes to bank details.

Police Scotland identified the individual who submitted the fraudulent bank mandate and, following a police caution, the full amount was repaid.



# Theft

Theft relates to cases where someone acts dishonestly appropriating property belonging to another with the intention of permanently depriving the other of it.

## Case study 9. Theft

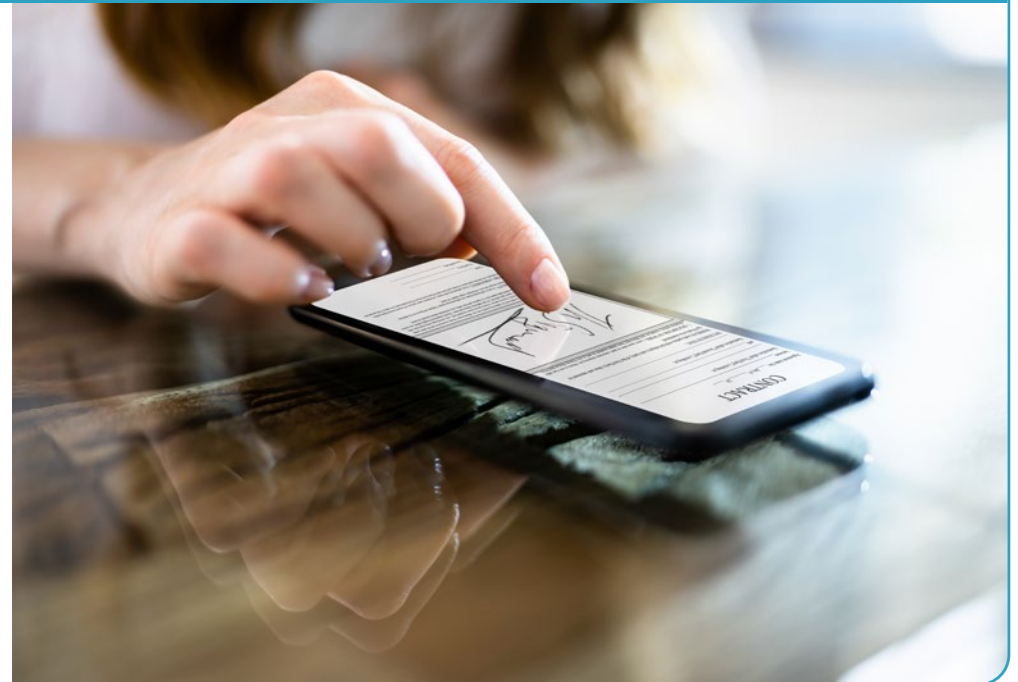
**An unidentified perpetrator stole random access memories (RAMs) valued at £12,000 from laptops stored in the office of a public body.**

### Key features

It was discovered during a stock check that some laptops had been opened and RAMs removed.

The theft was possible due to poor security arrangements. The perpetrator has not been identified due to the absence of CCTV.

Security procedures have been strengthened and a process for controlling the distribution of laptops has been developed.





# Further information

Further information about Audit Scotland's work on counter-fraud is available on our website. This includes information on:



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[Our counter-fraud work](#)



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[The National Fraud Initiative](#)



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[Red flags in procurement](#)



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[Cybercrime:  
A serious risk to  
Scotland's public  
sector](#)



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[SEPA continues  
to count cost of  
cyber-attack](#)

# Fraud and irregularity

Annual report 2022/23



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**South Ayrshire Council  
Equality Impact Assessment  
Scoping Template**

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: <https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx>

Further guidance is available here: <https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/>

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. FSD Guidance for Public Bodies in respect of the Duty, was published by the Scottish Government in March 2018 and revised in October 2021. See information here: <https://www.gov.scot/publications/fairer-scotland-duty-guidance-public-bodies/>

## 1. Policy details

Policy Title	Audit Scotland: Fraud and Irregularity 2022/23
Lead Officer (Name/Position/Email)	Tim Baulk, Head of Finance, ICT and Procurement – tim.baulk@south-ayrshire.gov.uk

**2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts**

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	-	-
Disability	-	-
Gender Reassignment (Trans/Transgender Identity)	-	-
Marriage or Civil Partnership	-	-
Pregnancy and Maternity	-	-
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	-	-
Religion or Belief (including lack of belief)	-	-

Community or Groups of People	Negative Impacts	Positive impacts
Sex – (issues specific to women & men or girls & boys)	-	-
Sexual Orientation – person’s sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	-	-
Thematic Groups: Health, Human Rights & Children’s Rights	-	-

**3. What likely impact will this policy have on people experiencing different kinds of social disadvantage i.e. The Fairer Scotland Duty (This section to be completed for any Strategic Decisions). Consideration must be given particularly to children and families.**

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	-	-
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	-	-
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	-	-
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	-	-
Socio-economic Background – social class i.e. parent’s education, employment and income	-	-

**4. Do you have evidence or reason to believe that the policy will support the Council to:**

General Duty and other Equality Themes Consider the ‘Three Key Needs’ of the Equality Duty	Level of Negative and/or Positive Impact (High, Medium or Low)
<b>Eliminate unlawful discrimination, harassment and victimisation</b>	Low
<b>Advance equality of opportunity</b> between people who share a protected characteristic and those who do not	Low

<b>General Duty and other Equality Themes</b> <b>Consider the 'Three Key Needs' of the Equality Duty</b>	<b>Level of Negative and/or Positive Impact</b> <b>(High, Medium or Low)</b>
<b>Foster good relations</b> between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	Low
Increase participation of particular communities or groups in public life	Low
Improve the health and wellbeing of particular communities or groups	Low
Promote the human rights of particular communities or groups	Low
Tackle deprivation faced by particular communities or groups	Low

## 5. Summary Assessment

<b>Is a full Equality Impact Assessment required?</b> (A full Equality Impact Assessment must be carried out if impacts identified as <b>Medium and/or High</b> )	<input checked="" type="checkbox"/> <b>YES</b>  <input type="checkbox"/> <b>NO</b>
<b>Rationale for decision:</b>  <b>This report advises Members of the findings of the report by Audit Scotland. Their decision on this has no specific equality implications</b>	
<b>Signed :</b> Tim Baulk  <b>Date:</b> 16 August 2023	<b>Head of Service</b>