COTSWOLD
DISTRICT COUNCIL

COUNCIL **25TH SEPTEMBER 2018**

AGENDA ITEM (12)

HISTORIC FRAUD ISSUE

Accountable Members	Audit Committee
Accountable Officer	Nigel Adams Head of Paid Service 01285 623202 nigel.adams@cotswold.gov.uk

Purpose of Report	To provide information in respect of an historic fraud case.
Recommendation	**That the report be noted.**
Reason(s) for Recommendation(s)	The matter is historic, and proportionate actions were taken at the time of the incident.

Ward(s) Affected	N/A
Key Decision	No
Recommendation to Council	N/A

Financial Implications	None arising directly from this report. However, the Council was unable to recover the monies involved.
Legal and Human Rights Implications	None arising directly from this report.
Environmental and Sustainability Implications	None arising directly from this report.
Human Resource Implications	None arising directly from this report. However, the authorising officer was subject to disciplinary action.
Key Risks	None arising directly from this report.
Equalities Impact Assessment	Not Required

Related Decisions	The matter was reported to the Audit Committee on a number of occasions, as follows:- • on 5th April 2016 as part of the Grant Thornton Assurance Report and as part of the Internal Audit Monitoring Report; • on 28th June 2016 as part of the Counter Fraud Unit Update; • on 23rd August 2016 as part of Grant Thornton's 2015/16 Audit Findings Report and as part of the Counter Fraud Unit Update.
Background Documents	Audit Committee reports
Appendices	None

Performance Management Follow Up	Implement any Council decision(s).

Options for Joint Working	Fraud prevention measures are in place across the Publica partner councils. A combined Counter Fraud Unit is in operation.

Background Information

1. General

1.1 I have been asked to provide an information update to all Members in respect of an historic fraud case that has been the subject of recent media reporting. In producing this report, I have reviewed the relevant files and spoken with Officers who were involved at the time and remain in the employ of the Council or Publica or SWAP Internal Audit Services. It is hoped that this report will clarify the position and address concerns as to how the matter was handled.

1.2 In addition to the various comments posted in relation to the media articles, and a number of social media posts, the Council has received one letter relating to this matter - whilst disappointed that the incident had occurred in the first place, the enquirer acknowledged the measures taken both immediately at the time, and subsequently, to try to avoid any similar occurrence in the future; and commented that he 'was not aware that this event had happened back in 2015 as the report *he* saw made it appear more recently'.

1.3 This report gives a comprehensive account of events, but it should be noted that matters relating to an individual's employment with the Council cannot legally be disclosed, either in this report or through questions posed in any debate at the Council Meeting.

2. Timeline of Events, including Action Taken and Outcomes

2.1 On 7th and 8th December 2015, an officer of the Council had an e-mail exchange with someone who purported to be a senior Council officer. The exchange included three requests for emergency payments to be made, in the sums of £18,400, £18,220 and £18,900. The requests, which appeared to be for legitimate reasons, were authorised, and the payments subsequently made.

2.2 Later on 8th December, the Officer concerned reported a suspicion that the requests could have been fraudulent and might, in fact, have been a 'phishing' exercise. The Council's Senior Management Team at the time (Chief Executive and Strategic Directors), together with Officers from within the Internal Audit (Audit Cotswolds) and Counter Fraud teams, were also advised of the situation.

2.3 The Internal Audit and Counter Fraud teams acted immediately. As a first step, this involved notifying the Police (through Action Fraud, the National Fraud Reporting Centre), relevant banks, the Council's External Auditors (Grant Thornton), and the Council's insurers of the situation. A check was also carried out in relation to the bank account information held for the Officers concerned, which showed that the requested payments had not been made into those accounts. Other checks confirmed, as far as was possible, that no Council employee had benefited from the crime. The Council was unable to conduct an in-depth investigation into the matter, as it did not have the facilities or investigative tools necessary when dealing with cyber-crime, but in any event the matter was correctly reported to the Police.

2.4 Internal Audit and Counter Fraud Officers also carried out an urgent review of the systems in place in relation to CHAPS (Clearing House Automated Payments System) payments. A number of internal control weaknesses were identified, and procedural changes were implemented immediately in an attempt to prevent any recurrence of this type of fraud. Subsequently, compulsory cyber awareness briefings were delivered to staff and councillors.

2.5 Full briefings were provided to the then Chairman of the Audit Committee and the Leader of the Council. The matter was also reported to the Audit Committee at three consecutive meetings - on 5th April 2016 as part of the Grant Thornton Assurance Report and also as part of the Internal Audit Monitoring Report; on 28th June 2016 as part of the Counter Fraud Unit Update; and on 23rd August 2016 as part of Grant Thornton's 2015/16 Audit Findings Report and also as part of the Counter Fraud Unit Update.

2.6 There is a specific reference within the Minutes of the April meeting to a question having been raised by a Member on the matter and responses being given (as part of the Grant Thornton Assurance item); and whilst the Minutes of the August meeting do not contain a record of any discussion of the specific item, it is believed that there was some discussion as part of the CDC Audit Findings Report. At the August meeting, it was reported that the case had been closed.

2.7 The Leader of the Council, having consulted the Deputy Leader, was of the view that it was appropriate for the Officer who authorised the payments to be subject to the Council's internal disciplinary process. This was undertaken by senior Officers, in line with agreed policy and procedures, and having regard to external advice sought given the nature of the incident. Following due process, formal disciplinary action was authorised and taken - this did not result in dismissal.

2.8 The banks were unable to recover the funds. Following an initial investigation and assessment, the Police decided that no further investigation would take place (having regard to various factors and guidance). The Police drew attention to the resource-intensive nature of fraud investigation; the fact that resources were oversubscribed, which meant that every report of fraud could not be investigated; the consequent focus of resources on vulnerable victims and those offenders posing most risk, harm and threat to the public; and the need to take account of the likelihood of conviction to the criminal standard.

2.9 The Council was unable to recover any funds via its insurers.

2.10 The perpetrator remains unknown - it was a phishing exercise and the perpetrator hid his/her true identity.

2.11 It is clear that relevant parties (including specific Members) were notified of the fraudulent activity, and that proportionate action was taken.

2.12 It was entirely correct for the Council's External Auditors to refer to the incident in their assurance work and in their year-end audit findings. It should, however, be noted that the auditors did not consider the nature or level of the incident to warrant any formal recommendation to the Council or the issue of a public interest report.

2.13 The papers and discussions of the Audit Committee on this matter were all within the public domain - no information was provided under confidential cover. It is, however, accepted that, due to the nature of the incident, the written information provided was not detailed (although further information was provided in response to any question(s), e.g. at the April meeting). The membership of the Committee at the time comprised three councillors from the Conservative Group and two from the Liberal Democrat Group (in line with the political proportionality regulations). I am not aware that, in the period during which the matter appeared as part of Committee business, and indeed since that time, any member of the Committee (or substitute member) at the time had raised any concerns with the Council's senior/statutory Officers about the way in which the matter had been handled; nor had they requested that a formal report be issued.

2.14 In order to protect the Council, it was not considered appropriate to issue detailed information about the fraudulent activity, the internal control weaknesses identified, or the process changes which were put in place - to do so would have potentially led to further fraud attempts based on any information provided.

3. The Current Position

3.1 The incident was unfortunate and regrettable, but resulted from a genuine human error. Procedural changes were put in place at the time in an attempt to prevent any recurrence of similar fraudulent activity.

3.2 We are constantly looking for ways to improve our security, and do inform and train our employees about phishing schemes and the dangers of opening links from unfamiliar sources.

3.3 Unfortunately, cyber crime is ever-changing - with phishing schemes being but one of a number of different threats that we all face on a daily basis. As scams become more sophisticated, we have to work harder to seek to address the situation.

3.4 UK local authorities face an average of 19.5 million cyber-attacks a year and have been subjected to at least 130 million cyber attacks between 2013 and 2018. The total cost to the government of fiscal fraud by cyber criminals is over £2.2 billion. Additionally, figures from 2016 show that 2.9 million British companies were hit by some sort of cyber crime at a total cost of £29.1 billion. This is not a justification for what happened some three years' ago at the Council, but does provide some perspective.

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