

REPORT OF DAP Partnership Manager
To: Audit & Governance Committee
Subject: Managing the Risk of Fraud and Corruption – Self Assessment
Date: 24th November 2017 **Reference:**

PURPOSE OF REPORT: To advise the Audit & Governance Committee of the results of a self assessment against the CIPFA code of practice on Managing the Risk of Fraud and corruption.

1. INTRODUCTION

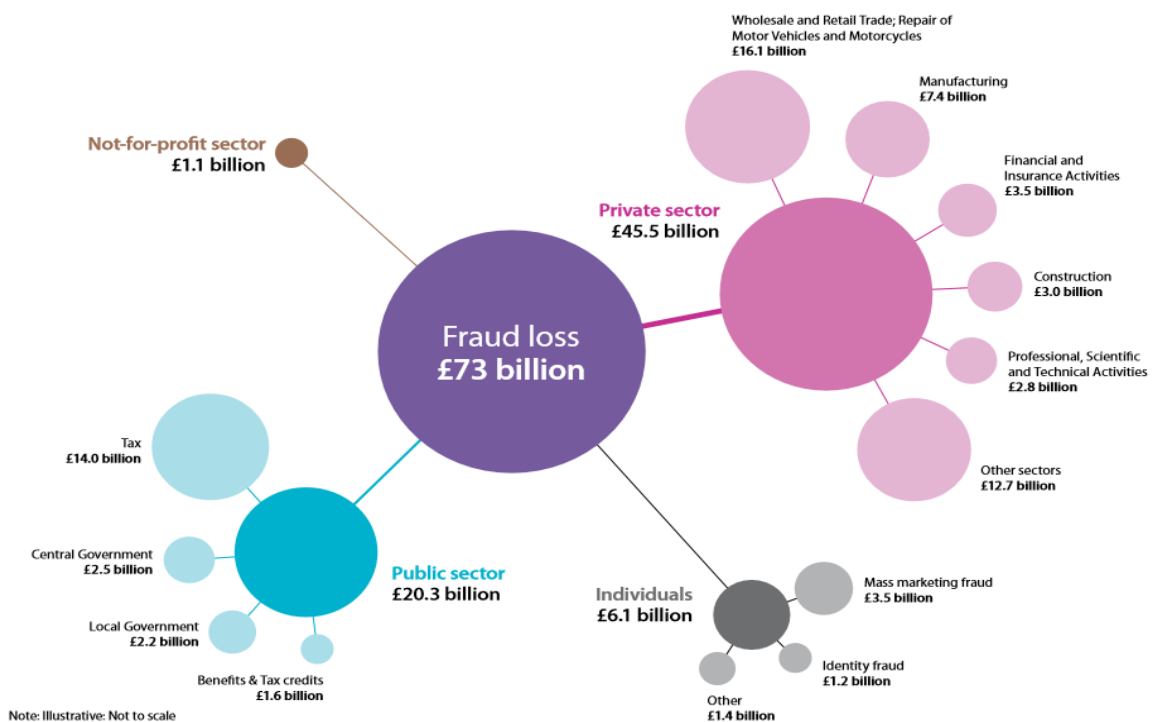
CIPFA’s Counter Fraud Centre has prepared a code of practice on managing the risk of fraud and corruption.

The guidance emphasises the need for public service organisations to take responsibility to embed effective standards for countering fraud and corruption in their organisation. This supports good governance and demonstrates effective financial stewardship and strong public management.

This guidance is supplemented by the government’s “Fighting Fraud Locally – the Local Government Fraud Strategy”.

In 2012 Fraud to the UK economy was estimated at £73bn. A useful illustrative diagram was prepared showing where this fraud is thought to occur:-

Fig 1: Total annual fraud loss estimate, NFA Annual Fraud Indicator 2012.



Local Government fraud risk was assessed at £2.2bn, broken down as follows:-



Fraud Type	Fraud Loss
Housing tenancy fraud	£900 million
Procurement fraud	£890 million
Payroll fraud	£153 million
Council tax fraud	£131 million
Blue Badge Scheme misuse	£46 million
Grant fraud	£41 million
Pension fraud	£5.9 million

Not all of the above fraud risks are relevant to Torridge, but the chart and information in the report, does provide guidance on possible fraud areas and how to prevent, detect and investigate such fraud.

2. REPORT

The attached report is a self assessment of the standards in place at Torridge Council against the CIPFA code of practice (see Appendix A).

Members of the Committee will note that, by and large, effective and appropriate standards are in place. There is an ongoing need to ensure that policies and procedures follow best practice and legislative requirements, and regular updates of practices assists in this. Overall there are good principles to prevent, detect and investigate instances of fraud and corruption.

Internal Audit will continue to ensure that standards and practices are embedded, and remain effective at deterring and preventing fraud.

3. IMPLICATIONS

Legal Implications

Compliance with the CIPFA code of practice on Managing the Risk of Fraud and Corruption.

Financial Implications

None

Human Resources Implications

None

Sustainability Implications

None

Equality/Diversity

None

Risk Management

The external auditor provides members with assurance on the Financial Statements.



Compliance with Policies and Strategies

None

Ward Member and Lead Member Views

Chair of A&G Consulted on 22 November 2017.

4. CONCLUSIONS

Overall the self assessment provides good assurance that sound and effective fraud prevention arrangements are in operation.

5. RECOMMENDATIONS

Committee are asked to note:

That Internal Audit reviews continue to ensure that procedures remain effective and are updated as required to counter new and emerging fraud threats.

SUPPORTING INFORMATION

Consultations: Jenny Wallace, Head of Paid Service
Steve Hearse, Statutory Finance Officer
Jamie Hollis, Senior Solicitor

Contact Officer: Chris Dobbs, Service Improvement Officer

Background Papers: CIPFA code of Practice on Managing the Risk of Fraud and
Corruption



Managing the Risk of Fraud and Corruption

Self Assessment against the CIPFA code of practice November 2017

Code of practice principles

Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

The five key principles of the code are to:

- acknowledge the responsibility of the governing body for countering fraud
- and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.

A Acknowledge responsibility

The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

Specific steps should include:

A1 The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.	Recognised, and reflected in the Anti-fraud and Corruption & Bribery Policy and Strategy (both staff and members).
A2 The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.	Yes. Corporate induction process for staff shows (slides 38 to 47 of induction process).
A3 The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.	Yes. As set out in Code of Corporate governance and in the Annual Governance Statement.
A4 The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention	There is a goal in the Strategic Plan to ensure the Council's Governance arrangements are robust and regularly reviewed The HOPS receives and reviews offers of enhanced fraud and detection services from the National Fraud Initiative (NFI).



B Identify risks

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

Specific steps should include:

<p>B1 Fraud risks are routinely considered as part of the organisation's risk management arrangements.</p>	<p>Yes. See Fraud Risk assessment. Last updated No 2017</p>
<p>B2 The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.</p>	<p>An anti-Fraud, corruption & Bribery policy and strategy is in place. The document was reviewed by the Audit and Governance Committee in February 2017.</p> <p>Members sought, and were provided, assurance that the policies followed Local Government Association polices. The debate resulted in a few changes to the policy, including:-</p> <ul style="list-style-type: none"> · Unions added to the list of external bodies available to receive concerns · Whistleblowing Policy – Elected Members should also be a point of contact for officers. · the need to emphasise the Council's zero-tolerance approach. <p>Senior Manager Assurance statements are completed annually as part of the Annual Governance Statement process and include a statement concerning awareness of fraud or irregularity</p>
<p>B3 The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.</p>	<p>Torrige use the results from the Audit Commission "Fighting Fraud Locally" review.</p> <p>This shows that losses have bene historically low when compared to statistical neighbours.</p>
<p>B4 The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.</p>	<p>Yes. See Fraud Risk Assessment at B1 above.</p>



C Develop a strategy

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

Specific steps should include:

C1 The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.	Yes. Anti Fraud, Corruption & Bribery Policy and Strategy is in place, supported by a Whistleblowing policy
C2 The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.	The Policy has been updated and presented to Audit and Governance Feb 2017.
C3 The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below.	Yes. A range of proactive and responsive measures are in place

Proactive

Developing a counter-fraud culture to increase resilience to fraud.	Internal Audit control framework Whistleblowing Policy Included in staff induction programme Regular reminders sent to staff via the Staff Newsletter and emails
Preventing fraud through the implementation of appropriate and robust internal controls and security measures.	All managers are expected to ensure that arrangements have sound and effective controls. Control testing is supported by Internal Audit, who complete a "fraud risk assessment" for each area of audit review, to ensure controls are effective in preventing and detecting fraud and corruption.
Using techniques such as data matching to validate data.	Data matching takes place bi-annually as part of the National Fraud Initiative. Where appropriate, Internal Audit will use data mining by extracting data and using IDEA software to provide data analysis.
Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.	Yes. For example a Councillor's workbook on bribery and fraud prevention, designed by the LGA as a leaning aid for Members, sent to A&G members on 20 th November 2017.

Responsive

Detecting fraud through data and intelligence analysis.	Yes. Via the results obtained from the NFI process.
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	Where appropriate, Internal Audit will use data mining by extracting data and using IDEA software to provide data analysis
Implementing effective whistleblowing arrangements.	Yes. See whistleblowing policy.
Investigating fraud referrals.	Yes. By Torridge staff, SFIS and by support from DAP.
Applying sanctions, including internal disciplinary, regulatory and criminal.	Yes. Will depend upon each case, but action will be expected in proven cases, proportionate to the event.
Seeking redress, including the recovery of assets and money where possible.	Yes, where and when appropriate.

C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.	Yes.
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D Provide resources

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

Specific steps should include:

<p>D1 An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.</p>	<p>Each year the business planning process includes a review of Risk Management arrangements Budget setting process managed by the Statutory Finance Officer and looks at what is required across all areas to maintain effective service provision alongside an adequate control framework.</p>
<p>D2 The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.</p>	<p>Yes. Torridge Council will use resources to ensure fraud is prevented, detected and investigated. Resources will include:-</p> <ul style="list-style-type: none"> • Key front line staff (Revenues and Benefits staff etc.) • HR • Legal • Finance • ICT • Internal Audit (supported by DAP) • External Audit <p>And partner with:-</p> <ul style="list-style-type: none"> ○ SFIS ○ Police ○ NAFN (National Anti Fraud Network) ○ And others ss appropriate.
<p>D3 The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.</p>	<p>Yes. Each investigation will be considered and appropriate access granted for investigation purposes.</p>
<p>D4 The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.</p>	<p>Yes. Data supplied to supported the National Fraud Initiative (NFI). Data supplied to partners in line with Section 29 requests received from Devon and Cornwall Police and are logged centrally.</p>



E Take action

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

Specific steps should include:

- E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:

Counter fraud policy	Yes. Anti Fraud, Corruption and Bribery Policy and Strategy reviewed by Audit and governance Committee in February 2017.
Whistleblowing policy	Yes. Whistleblowing Policy. Feb 2017.
Anti-money laundering (AML) policy	<p>It is not a requirement for local authorities to have an AML. For Torridge, the key elements of an AML are contained in the Financial Procedure Rules which state:-</p> <p>Money Laundering 4.1.20 The maximum cash payment that will be accepted by the Council is £5,000. Above that sum payments will be accepted by cheque, credit or debit card, BACS payment, bankers draft or CHAPS payment. 4.1.21 Payments over £1,000 made in cash will be reported to Statutory Finance Officer immediately and the bank notes subject to scrutiny for authenticity. The Statutory Finance Officer will investigate such payments as necessary and report any concerns to the Head of Paid Service. 4.1.22 The Head of Paid Service and Statutory Finance Officer will be the responsible officers in relation to the Money Laundering legislation.</p>
Anti-bribery policy	Yes – see above.
Anti-corruption policy	Yes – see Anti fraud, Corruption and Bribery Policy and Strategy.
Gifts and hospitality policy and register	<p>Yes. Code of Conduct and Register of Members' Interests as part 5 of the constitution. Codes of Conduct for Members and Officers last approved August 2016 by Council.</p> <p>Register of gifts is shown on the website http://www.torridge.gov.uk/article/12766/Gifts-and-Hospitality-Register</p> <p>Register of interests is shown on the website http://www.torridge.gov.uk/CHttpHandler.ashx?id=8252&p=0</p>
Pecuniary interest and conflicts of interest policies and register	Yes, see above.
Codes of conduct and ethics	Yes, codes of conduct for employees and members.



	See also "The Deal". This is the "psychological contract" between employer and employee.
Information security policy	Yes.
Cyber security policy.	Yes - The wider ICT policy has recently been updated.

E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.	The Fraud Response Plan was updated in November 2016.
E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.	Yes. Data is shared to support the NFI process. Fraud statistics are provided to enable a sector wide picture of fraud to become clearer. Our internal audit providers work and collaborate with other internal audit providers in the south west (through Devon Audit Group; West of England Internal Audit Group; County Chief Auditor Network) to become aware of current trends and risks and to ensure the council is well placed to avoid risks.
E4 Providing for independent assurance over fraud risk management, strategy and activities.	Internal Audit <ul style="list-style-type: none"> ○ annual review of risk management arrangements ○ detailed audit work on preventing fraud in each audit. External Audit – audit of final accounts / specific (high value) grant claims.
E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.	The Annual Internal Audit report (provided to the Audit & Governance Cttee) will provide the Head of Internal Audit's opinion, which will include an opinion of the effectiveness of the Authority's anti-fraud arrangements. This is summarised in the AGS

