

# CHESHIRE EAST COUNCIL

## Audit and Governance Committee

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**Date of Meeting:** 30 June 2011

**Report of:** Head of Policy & Performance

**Title:** Anti-Fraud and Corruption Arrangements

**Portfolio Holder:** Councillor Wesley Fitzgerald

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### 1.0 Report Summary

- 1.1 As part of our ongoing efforts to ensure that the systems and procedures in place within the Council remain relevant and meet best practice the Anti-Fraud and Corruption arrangements have been reviewed against the guidance issued by CIPFA in the publication "*Managing the Risk of Fraud – Actions to Counter the Risk of Fraud-Red Book 2*". This report advises the Committee of the findings of the review.

### 2.0 Recommendation

- 2.1 The Audit Committee is asked to note this report.

### 3.0 Reasons for Recommendations

- 3.1 The Council recognises that, as a large organisation, it is at risk of loss due to fraud and corruption both from within the organisation and external to it. The Council's Anti-Fraud and Corruption arrangements include a series of measures aimed at deterrence, prevention, detection, investigation, sanction and redress. In order to establish fitness for purpose Internal Audit has risk assessed these arrangements against the guidance issued by CIPFA in the publication "*Managing the Risk of Fraud – Actions to Counter the Risk of Fraud-Red Book 2*" by using the Better Governance Forum's Fraud Risk Evaluation Diagnostic (FRED1) tool.
- 3.2 In order to ensure that the council has robust arrangements to counter the threat of loss through fraud and corruption it is essential that the relevant systems and procedures are subject to regular review against best practice and that identified weaknesses are managed.

- 3.3 The Audit and Governance Committee's role in overseeing the Council's Counter Fraud arrangements is crucial for the Council to achieve its anti fraud and corruption objectives.

#### **4.0 Wards Affected**

- 4.1 All wards.

#### **5.0 Local Ward Members**

- 5.1 Not applicable.

#### **6.0 Policy Implications including - Climate change - Health**

- 6.1 Not applicable.

#### **7.0 Financial Implications (Authorised by the Borough Treasurer)**

- 7.1 An overriding responsibility of the Council is the provision of effective and efficient services in a manner that seeks to ensure the best possible protection of the public purse in its delivery arrangements. Hence the Council must have appropriate policies and mechanisms to safeguard the Council's resources and reduce losses to fraud and corruption in all areas to an absolute minimum.

#### **8.0 Legal Implications (Authorised by the Borough Solicitor)**

- 8.1 The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local Government entities have a statutory duty to make arrangements for the proper administration of their financial affairs and appoint an officer to have responsibility for the administration of these arrangements.

#### **9.0 Risk Management**

- 9.1 The Council as a large organisation is at risk of loss due to fraud and corruption both from within the Council and outside it. The impact of fraud on the Council can have consequences that are serious and often far reaching. Financial loss is the obvious key risk but the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself. In order to mitigate this risk the Council needs to be explicit about the way fraud will be regarded and dealt with.

## **10.0 Background and Options**

10.1 In order to demonstrate fitness for purpose Internal Audit has used the Better Governance Forum's Fraud Risk Evaluation Diagnostic (FRED1) tool to evaluate the counter fraud arrangements in place at the Council. The tool, which is based on the CIPFA publication "*Managing the Risk of Fraud – Actions to Counter the Risk of Fraud- Red Book 2*" allows the Council to:

- identify and manage risk
- target resources where the need is greatest
- align arrangements with best practice

10.2 The key findings of the assessment together with actions to improve or develop the Council's counter fraud arrangements and minimise any areas of weakness are detailed below.

10.3 The Committee is asked to note that actions to improve or develop the Council's counter fraud arrangements have been built into the internal audit plan and that update reports on the effectiveness of measures will be provided to Members periodically.

### **Strategy**

#### ***Adopting the right strategy***

10.4 Cheshire East Council has an Anti Fraud & Corruption Strategy in place along with supporting policies such as Whistleblowing and Benefit specific policies and procedures.

10.5 In order to further develop this area the strategy should be updated to ensure that it fully reflects best practice and a Fraud Response Plan should be produced to ensure a consistent approach to investigations and the application of sanctions. The Housing Benefit policies should be reviewed to ensure that they remain aligned with the updated strategy.

#### ***Accurately identifying the Risks***

10.6 Internal Audit has completed a Fraud Risk Assessment to take into account the findings of the National Fraud Authority 'Annual Fraud Indicator' and the Audit Commission publication 'Protecting the Public Purse'. The risk areas identified during this exercise were drivers in the production of annual Audit Plan, in particular with respect to the introduction of pro active anti fraud work.

10.7 Risk is also taken into account in planning the focus of pro active work carried out by the Housing Benefit Fraud Team.

- 10.8 This area of assurance will continue to develop over time with the identification of local issues resulting from wider ranging work identified by national bodies.

### ***Creating and Maintaining a strong structure***

- 10.9 Cheshire East Council has a Principal Auditor in post with responsibility for reviewing the overarching arrangements for anti fraud and corruption work and the development of pro active exercise to identify control weaknesses across services. In addition to this role, there is a well established Housing Benefit Fraud Team.
- 10.10 These officers have been provided with an appropriate level of authority to enable effective investigation of potential frauds.
- 10.11 Fraud staff are subject to regular training in fraud awareness, the conduct of interviews under caution and the impact of RIPA. Fraud awareness training is also provided to staff in revenues, benefits and customer services and specific training on the verification of original documents has been provided to HR staff to assist in the pre employment propriety checking process for new staff.
- 10.12 Close working relationships are in place with neighbouring authorities to ensure that common risks are shared and the HB Fraud Team have formal arrangements with organisations such as the DWP.
- 10.13 The NFI exercise has highlighted pre employment checks as an area of risk that requires additional focus from Internal Audit during 2011/12.

### **Culture**

#### ***Taking action to tackle the problem -***

- 10.14 The review has identified that Cheshire East Council has arrangements in place, in both Internal Audit and the HB Fraud Team, to ensure that the following areas are effectively managed:
- deterrence
  - prevention
  - detection
  - investigation
  - sanction/redress
- 10.15 However, as a relatively young authority, the anti fraud culture is still developing and it is important that this development continues and is driven by an Anti Fraud and Corruption Strategy and supporting policies that clearly reflect the commitment to a zero tolerance approach by both members and management.

- 10.16 This will be achieved by rolling out and publicising these documents to all staff and stakeholders and by ensuring that they are subject to regular reviews of their effectiveness.
- 10.17 It would also be advisable to include fraud awareness as an item on the corporate induction programme.

### **Defining Success**

- 10.18 In defining success it is important to ensure that there is a focus on outcomes as well as activity. This will enable the organisation to learn from instances of fraud and corruption and develop controls to mitigate the risk of it happening again in the future.
- 10.19 The review has shown that detailed monitoring is carried out of all fraud investigations and that this feeds into a risk based approach to planning future work. In addition, regular reports are produced to relevant officers and Committees informing them of the outcomes of investigations that impact upon their area of responsibility.

## **11.0 Access to Information**

- 11.1 The background papers relating to this report can be inspected by contacting the report writer:

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