

# CHESHIRE EAST COUNCIL

## Audit and Governance Committee

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**Date of meeting:** 27<sup>th</sup> September 2012  
**Report of:** Head of Internal Audit  
**Title:** Anti-Fraud and Corruption Arrangements  
**Portfolio Holder:** Councillor Peter Raynes

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### **1.0 Report Summary**

- 1.1 As part of the Council's 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 National Fraud Authority (NFA) document 'Fighting Fraud Locally: The Local Government Fraud Strategy (FFL)'. This report advises the Committee on the findings of the review.

### **2.0 Recommendation**

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

### **3.0 Reasons for Recommendation**

- 3.1 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.
- 3.2 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 Wards Affected**

- 5.1 Not applicable

## **6.0 Policy Implications**

- 6.1 The existence of anti-fraud arrangements, in line with the Fighting Fraud Locally Strategy will contribute towards good governance.

## **7.0 Financial Implications**

- 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**

- 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 Assessment**

- 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 The Fighting Fraud Locally Local Government Fraud Strategy sets out a three part strategic approach to tackling fraud:
- **Acknowledge** – acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

- **Prevent** – preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- **Pursue** – punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

10.2 Each of the three elements detailed above are discussed in detail and a number of areas for consideration are provided. In order to identify gaps in our current arrangements they have been reviewed against these areas of consideration and the outcomes detailed below:

### **Review of Compliance with Best Practice as Detailed in Fighting Fraud Locally**

#### **10.3 Acknowledge**

Conduct a fraud risk assessment to identify the threat of fraud and use the fraud loss tool to determine the likely risk exposure.

- 10.3.1 An effective counter fraud strategy needs to be informed by a good understanding of the fraud threat, emerging risks and the savings that can be made from investing in countering fraud. The best local authorities know how fraud affects them and what they can do about it.
- 10.3.2 The Council's risk management process has identified the "Risk that the Council fails to manage expenditure within budget and maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of corporate objectives" as a Strategic Risk.
- 10.3.3 This risk recognises that the Council could be exposed to losses or unplanned expenditure, as a result of the misappropriation of assets and/or fraudulent financial reporting as well as other causes/triggers.
- 10.3.4 Following the identification and assessment of mitigating controls and future planned actions/contingency, the risk has been measured as high in recognition of the fact that although a number of controls have been

strengthened, the overall economic situation and scale of organisational change continues to present a challenging climate.

- 10.3.5 This risk has been reviewed during the year through one to one discussions with the manager of this risk, which is the Finance Manager. The review date for this risk is decided at each review meeting and the risk has been revisited during the year accordingly and at least quarterly.
- 10.3.6 At each risk review the risk stewardship template is forwarded for discussion and comment by the risk owner, the Director of Finance and Business Services, with the risk strategic lead which is the Finance Portfolio Holder. Any comments received from the risk owner and strategic risk lead are updated on the risk stewardship template and risk register accordingly.
- 10.3.7 This risk is a key corporate risk and as such is reviewed by the Corporate Risk Management Group and included in the risk update reports to the Corporate Management Team, Cabinet and the Audit and Governance Committee. Details of this risk are also held on the key corporate risk register which is available to view by all Members on the Centranet and has recently been communicated to all Scrutiny Committee Chairs.
- 10.3.8 Members are asked to note that the strategic risk will be revisited in order to take account of the outcomes of this review including:
- the Fraud Loss Profile Tool
  - the National Anti Fraud Network (NAFN) resilience tool
- as well as the outcomes from the National Fraud Initiative (NFI).
- 10.3.9 The Fraud Loss Profile Tool is produced by the National Fraud Authority (NFA) and provides Local Authorities with an indication of their likely financial loss to fraud in Council Tax, Housing Tenancy and Procurement and Payroll.
- 10.3.10 The figures provided are based upon expenditure figures provided to the Department for Communities and Local Government (DCLG) and makes an assumption that a percentage of all expenditure in each area

may be fraudulent. This does not therefore take into account the effectiveness of controls already in place to mitigate the risk of fraud.

10.3.11 It does however provide an indication to the potential losses in these areas should the controls that are currently in place not be operating effectively.

10.3.12 A summary of the results are as follows:

	Lower Estimate	Upper Estimate
Council Tax Fraud	£ 740,000	£ 1,230,000
Housing Tenancy Fraud	-	-
Procurement Fraud	£ 3,160,000	£ 5,270,000
Payroll Fraud	£ 540,000	£ 900,000
Total Estimated Fraud	£ 4,440,000	£ 7,400,000

10.3.13 As previously stated, it is important to note that these figures represent an estimate of the potential value of fraud against the Authority should it not have effective controls in place to mitigate the risk of loss in these areas.

Perform a resilience check of the current capabilities making use of the free resilience tool which is available via the National Anti Fraud Network (NAFN) website.

- 10.3.14 The resilience tool consists of 29 questions designed to provide a score out of 50 for the Council's resilience to fraud. This has not been completed as yet but is planned to be carried out during September 2012.

Keeping records of all suspected and confirmed fraud cases and reporting annually at an Audit Committee level, or equivalent, on all matters relating to fraud, including an assessment of the effectiveness of the authority's fraud response.

- 10.3.15 Whilst records are maintained of all fraud cases and periodic updates on the effectiveness of the authority's fraud response are provided to Members, it is acknowledged that this is not currently presented to Audit and Governance Committee in the form of an annual report. In order to address this it is proposed that the format and timing of such a report is discussed and agreed at the next Member/Officer Fraud Sub Group.

Reviewing key systems that may be vulnerable to fraud and ensuring that key fraud risks are managed effectively.

- 10.3.16 Internal Audit considers the risk of fraud in compiling the annual audit plan and as such these areas are subject to review and reporting as part of the normal programme of Internal Audit work. Key financial systems are reviewed annually as part of the internal and external audit process. In order to comply with International Standards on Auditing (UK and Ireland) the Council's External Auditors require an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risk of fraud and the internal control that management has established to mitigate the risk (ISA 240). The response to the External Auditors is reported to the Audit and Governance Committee annually.

Developing a response plan aligned with the fraud risk and this strategy, accompanying guidance documents and checklist and reporting on this to senior management and relevant committees.

10.3.17 The current Anti Fraud and Corruption Strategy has been reviewed and updated in order to incorporate the requirements of the Bribery Act 2010 but it was felt appropriate to delay the submission of the updated strategy to both senior managers and Members until it was possible to carry out a further review to take into account the recommendations of FFL. This piece of work is ongoing and will involve the production of a Fraud Response Plan (the current strategy provides a high level description of how the Authority responds to fraud but this should be expanded upon in order to meet best practice).

10.3.18 Once the updated policy has been completed it will be submitted to the Corporate Governance Group for consideration before being presented to both Corporate Management Team and the Audit and Governance Committee for approval and adoption.

#### 10.4 **Prevent**

Deploying data analytic tools in their areas of risk for the purpose of data matching fraud prevention services across councils.
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10.4.1 Cheshire East Council currently utilises the findings from data matching to investigate potential frauds through its involvement in the National Fraud Initiative (NFI) and this is an area of pro active work that we are looking to extend.

10.4.2 Internal Audit has recently utilised the data analysis tool IDEA to identify duplicate payments processed via the Accounts Payable system for 2010/11 and 2011/12. In addition, Cheshire Shared Services have commissioned a company to carry out a similar exercise for the period April 2009 to March 2012.

10.4.3 The results will be reported to a future meeting following completion of the exercises.

10.4.4 During 2010/11, a successful exercise was commissioned by the Revenues team in order to identify claims for Single Persons Discount where there was evidence to suggest that another adult was resident at the address. The work was carried out by Northgate and cost around

£80,000 but realised an estimated increase in income of £500,000 per annum.

- 10.4.5 Discussions have recently been held between the Principal Auditor (Fraud) and the Service Manager – Revenues to identify other areas where data matching could be utilised to identify potential fraudulent applications for discount.

Collaborating with NFI and NAFN to develop data warehouses for the purpose of data matching fraud prevention across councils.

- 10.4.6 As part of FFL there is a commitment for the NFI and NAFN to work with local government to develop the capability and capacity to enable real-time or near real-time data matching checks and better use of intelligence relating to known fraud and fraudsters.

- 10.4.7 Cheshire East Council complies fully with the requirements of the biannual NFI data matching exercise and is a member of NAFN with officers including Housing Benefits, Trading Standards and Internal Audit utilising its services and responding to requests for information.

Developing a programme of activity to embed a strong anti-fraud culture across departments and delivery agents.

- 10.4.8 In addition to the Anti Fraud and Corruption Strategy and Fraud Response Plan that are currently being updated and developed to meet best practice and comply with the spirit and recommendations of FFL, it is proposed that an E-Learning module on Fraud Awareness will be rolled out to all staff.

- 10.4.9 Internal Audit are currently reviewing two possible modules to determine the most appropriate product and will make a recommendation to the Corporate Governance Group prior to the module being added to the current E-Learning suite. This will increase awareness of the risk of fraud across the Authority and impress upon staff the zero tolerance approach to fraudulent activity that Cheshire East Council employs.



Using the Changing Organisational Cultures Toolkit.

- 10.4.10 Upon completion of the Fraud Resilience Toolkit exercise consideration will be given as to whether it would be beneficial to carry out a further review of the arrangements against this toolkit which was produced by the Audit Commission several years ago.

Ensuring that staff and the public have access to a fraud and corruption whistleblowing helpline, and assure themselves that it conforms to the British Standards for whistleblowing arrangements.

- 10.4.11 Cheshire East Council's whistleblowing arrangements were updated and reviewed in line with the Whistleblowing Arrangements Code of Practice Publicly Available Specification (PAS) 1998:2008 which was issued by the British Standards Institute. A staff survey will be used to gauge awareness of the Council's whistleblowing arrangements as previously discussed by the Audit and Governance Committee.
- 10.4.12 Contrary to the suggested consideration in FFL, the PAS recommends that whistleblowing arrangements should not cover members of the public and the existing policy is consistent with this.
- 10.4.13 Currently, a member of the public would be able to raise a suspicion of fraudulent activity via the Corporate, Suggestions and Complaints arrangements but consideration will be given as to whether a dedicated means of reporting concerns around fraud and corruption for both members of the public and staff should be established.

## **10.5 Pursue**

Ensuring that the local authority has access to appropriate specialist investigative resource, including financial investigators, and explore options on whether access to these services can be shared across local authorities.

- 10.5.1 Cheshire East currently has access to a dedicated fraud resource in the Benefits Fraud Team although consideration will need to be given as to the impact the establishment of the Single Investigatory Service will have upon areas such as Council Tax fraud investigations.

- 10.5.2 In addition, a Financial Investigator is employed within the Consumer Protection and Investigations Team who is trained to pursue prosecutions under the Proceeds of Crime Act.
- 10.5.3 Whilst Internal Audit has staff that are professionally qualified and experienced at carrying out investigations into suspected fraud, none of the auditors currently hold any specialist qualifications in this area which is a matter that should be subject to further consideration.

Making arrangements with other authorities or partners to ensure access to a financial investigator.
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- 10.5.4 The availability of appropriate investigative resource is an area that has been subject to discussion at the Cheshire and Warrington Internal Audit Group and will be discussed in greater detail as the group establishes itself further.

Adopting a parallel sanctions policy for the purpose of taking disciplinary, civil and criminal action against fraudsters and consider the use of fraud recovery for all instances of fraud.
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- 10.5.5 Parallel sanctions refer to the process whereby two or more potential sanctions are pursued at the same time in order to maximise the potential of a successful outcome.
- 10.5.6 Cheshire East does not currently have a corporate sanctions policy that covers all areas that may be required to pursue a prosecution although the Housing Benefit Fraud Team operates under a service specific policy and Trading Standards follow an Enforcement Policy both of which set out the sanctions available and circumstances under which they will be applied.
- 10.5.7 In developing a Fraud Response Plan, consideration will be given to the production of a Parallel Sanctions Policy which covers the prosecution and recovery of all fraud losses perpetrated against the Council. This work will take account of the National Fraud Authority's:

- compendium of powers and penalties which has recently been developed to assist local authorities in their law enforcement response
- best practice on the use of fraud recovery processes and case building which is, as yet to be disseminated

Securing appropriate training for fraud practitioners in line with agreed professional standards for all types of investigation

Only employing staff to undertake investigations that are suitably qualified and trained and adhere to a professional code.

Adopting a professional code using the codes held by the Counter Fraud Specialists as a basis.

10.5.8 Investigators within both the Consumer Protection and Investigations team and the Housing Benefits fraud team are appropriately qualified to carry out investigations and pursue prosecutions on behalf of the Council. However, whilst Internal Audit includes staff with professional qualifications and significant experience of carrying out fraud investigations, none have specialist qualifications in this area. Consideration should therefore be given as to whether it would be beneficial for appropriate Internal Audit staff to undertake Counter Fraud Specialist training.

Working closely with local law enforcement agencies and putting in place locally agreed service level agreements where appropriate.

10.5.9 To be effective and consistently tackle fraud, local authorities need a consistent response from government and law enforcement. In order to facilitate this, the National Fraud Authority has committed to working with other enforcement agencies to develop a template for local authorities to set up agreements with local law enforcement agencies.

10.5.10 Internal Audit have established good working relationships with Cheshire Police Fraud Unit who provide support and guidance with regards to suspected frauds and the most appropriate way in which they should be investigated.

## **11.0 Access to information**

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

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