

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 28 November 2013
Report of: Head of Internal Audit
Title: Anti-Fraud and Corruption Arrangements
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.1 As part of the ongoing efforts to ensure that the systems and procedures in place within the Council remain relevant and meet best practice it is important that the anti fraud and corruption arrangements are subject to regular review.
- 1.2 The Council's arrangements were reviewed against 'Fighting Fraud Locally: The Local Government Fraud Strategy' and the findings were reported to this Committee in September 2012. In order to progress the findings an Action Plan was produced by the Principal Auditor (Fraud) with progress discussed at the Member/Officer Group.
- 1.3 This report will provide Members with an update on progress made in implementing key actions and provide assurance that appropriate arrangements are in place to protect the Council against the threat of fraud.

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 Fraud is a major issue facing the United Kingdom and Local Government is not exempt from this. The Annual Fraud Indicator 2013,

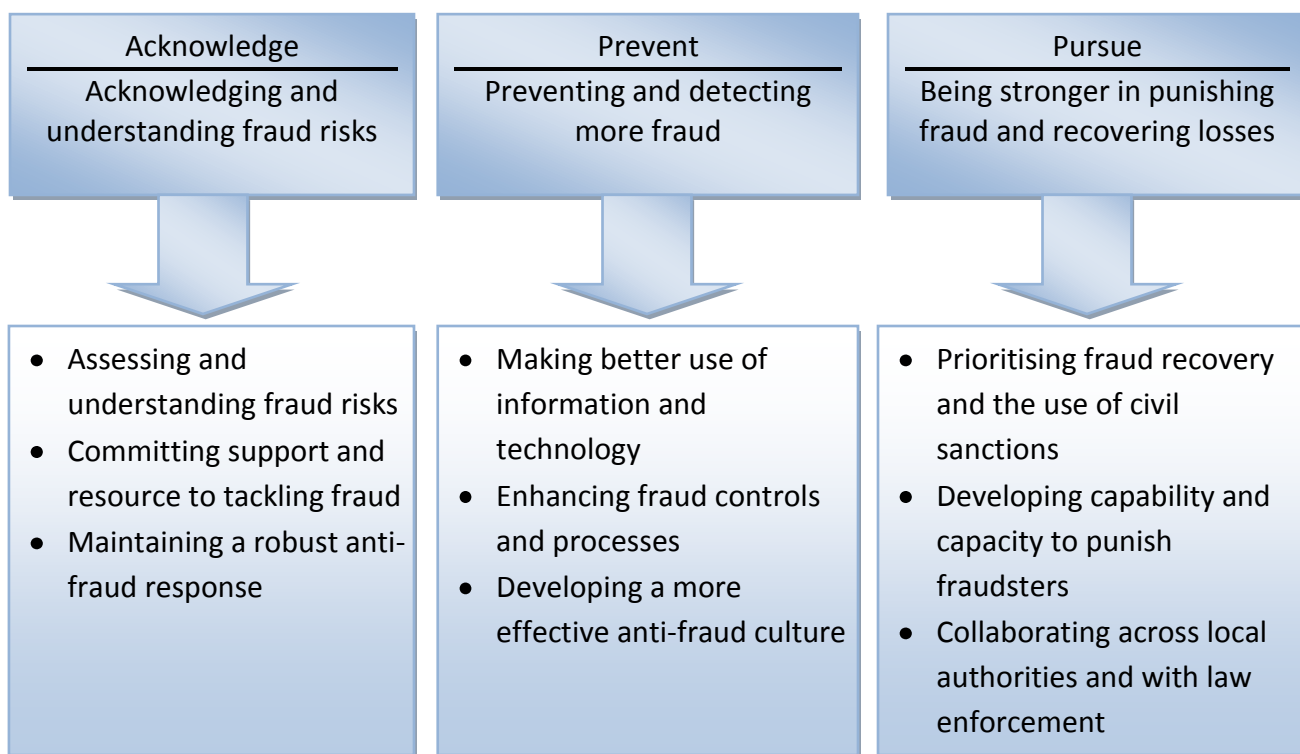
which is prepared by the National Fraud Authority, estimates total fraud loss against public bodies as £20.6bn.

This can be broken down as follows:

- Tax System - £14 billion
- Central Government - £2.6 billion
- Local Government - £2.1 billion
- Benefits/Tax Credits - £1.9 billion

10.2 In order to counter this threat, the government launched 'Fighting Fraud Locally: The Local Government Fraud Strategy' with the intention that, by 2015, local government will be better able to protect itself from fraud and have in place more effective mechanisms to respond to fraud when it occurs.

10.3 The Fighting Fraud Locally Local Government Fraud Strategy sets out the following three stage strategy for tackling fraud:



10.4 The Council's arrangements were reviewed against 'Fighting Fraud Locally: The Local Government Fraud Strategy' and the findings were reported to this Committee in September 2012. The review identified areas in which improvements could be made and these were recorded

in an Action Plan which has been discussed in detail at Member/Officer Group. The following provides Members with an update on progress made in implementing the key actions.

Action: Facilitate the production of a detailed Fraud Risk Assessment in conjunction with the Performance and Risk Manager and ensure that appropriate service managers engage in and contribute to the process.

- 10.5 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.
- 10.6 Although the risk of fraud has always been recognised in the Strategic Risk Register as part of the Financial Control risk this had not extended to the inclusion of a specific risk. Fraud was acknowledged as one of the causes of ineffectual financial control and the existence of robust anti-fraud and corruption arrangements as a mitigating control.
- 10.7 Given the increased profile and awareness of the threat of fraud to local authorities, Corporate Risk Management Group has agreed that the Strategic Risk Register should include the following fraud risk which was shared with Members at the 27 September 2013 committee:
- Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud, particularly at a time of financial hardship, such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.*
- 10.8 The management of this risk is supported by a draft Fraud Risk Assessment that was presented to and endorsed by Corporate Risk Management Group. The assessment was then shared with service managers to identify existing controls and enable the scoring of the risks in line with the corporate methodology. This is now being taken forward by the Performance & Risk Manager and will be revisited and reviewed by Internal Audit on a periodic basis to ensure that it is robust and current and also to inform Internal Audit work in this area.
- 10.9 Ownership of the fraud risk (CR19) has been assigned to the Chief Operating Officer (COO) and a meeting has been arranged with the Performance and Risk Manager and Internal Audit to discuss the further

work required on documenting actions taken and planned to mitigate the threat before scoring.

- 10.10 The inclusion of a specific fraud risk in the strategic risk register, and the development of a detailed risk assessment, is a positive move and demonstrates that Cheshire East 'acknowledges' fraud as a threat that must be countered, raises awareness at a senior level of the Council's potential level of exposure to fraud and provides a basis upon which the control framework can be further developed to provide assurance that these risks are mitigated.

Action: Identify the resource available across the whole authority for the investigation and prosecution of fraud and recovery of losses.

- 10.11 The Council does use professionally trained staff with appropriate and relevant powers and specialist resources to investigate fraud and trace assets including internal auditors, housing benefit investigators and a financial investigator.
- 10.12 As part of the ongoing management review the investigation teams from Trading Standards and Housing Benefits have recently been brought together into a Community Safety & Investigations Team under the Head of Public Protection and Enforcement. This will allow in-house capability for investigating and prosecuting fraud to be developed whilst maximising recovery through the Proceeds of Crime Act.
- 10.13 An initial discussion has been held with the Head of Public Protection and Enforcement to formalise the arrangements for investigating the full breadth of fraud threats against the authority, sharing of specialist resources, identifying lessons learned and placing less reliance on the Police.
- 10.14 Once agreement has been reached the Council's Anti Fraud and Corruption Strategy and accompanying guidance will need to be aligned with approved arrangements including those articulated in the Strategic Fraud Risk.

Action: Ensure audit coverage of systems deemed to at high risk of fraud by feeding findings from Fraud Risk Assessment into the Annual Audit Planning process.

- 10.15 The first line of defence in preventing fraud is the consistent application of internal controls. There are a range of controls that can be put in place to mitigate the risk of fraud and the Council is best placed to consider which controls are most appropriate. This work is supported by

internal audit who provide assurance on the operation of those controls and their effectiveness in preventing fraud

10.16 The Annual Audit Plan takes into account areas deemed to be at high risk of fraud and consideration was given to the areas highlighted in the draft risk assessment when the plan was produced. As such it includes time for both proactive anti fraud work and reactive investigations and includes a contingency allocation which ensures that Internal Audit can react appropriately to any new or emerging risks that come to light during the year.

10.17 It is widely acknowledged that Council Tax, Payroll and Procurement are amongst the key fraud risks to which Councils are exposed. The operation of the controls in place in these areas, including those designed to prevent and detect fraud, are subject to review by Internal Audit on an annual basis as part of the key systems assurance work.

10.18 In addition to this regular work the following areas have time allocated in the Audit plan:

- Purchase Cards
- Expense Claims
- Direct Payments
- Client Finances
- Planning
- National Fraud Initiative

Findings and recommended actions for improvements identified as part of this work will be reported in the normal manner and any suspected incidences of fraudulent activity will be considered for further investigation in line with the appropriate procedures

Action: Review the available E-learning Modules to determine which is most appropriate.

10.19 E-learning is an effective and efficient means of raising awareness of fraud across all staff and Members which is vital in creating a strong anti fraud culture. It also provides an effective control measure in mitigating the risk of fraud as awareness is key in spotting attempted fraud and identifying losses.

10.20 The National Fraud Authority has produced an e-learning module designed to raise awareness of fraud amongst local authority staff and following a demonstration of the module at a meeting of the Member/Officer Group it was agreed that it would be beneficial to roll this out across the Council.

- 10.21 The module was withdrawn pending an upgrade and the updated version of the e-learning has now been received and roll out will be discussed and agreed with the COO in his capacity as owner of the strategic fraud risk.
- 10.22 In addition to the Fraud Awareness module, the NFA are currently developing additional e-learning products covering procurement fraud and fraud against schools. Roll out of these modules will be considered once they have been released with the aim of ensuring that staff are aware of current fraud risks and understand their responsibilities in preventing, detecting and reporting suspicions and instances of fraud.

Action: Discuss and agree with Member/Officer Fraud Sub Group an appropriate format for an annual fraud report to Audit and Governance Committee.

- 10.23 The arrangements for reporting fraud related matters to Members are well established with the following reports having recently been received:
- June 2013 - the Chair's response to the Audit Commission request for information includes detailed information regarding the anti fraud and corruption arrangements and how the council identifies and responds to the risk of fraud. This includes details of the number of prosecutions taken by the Housing Benefit Fraud Team.
 - March 2013 - annual update on the effectiveness of the Whistleblowing Policy is provided, including statistics reflecting the number of concerns raised during the year.
 - Periodically - the regular update reports received throughout the year include a section on Counter Fraud.
- 10.24 In addition to the formal reports to Committee, the Member/Officer Group was established to provide Members with increased engagement and access to information relating to fraud. This allows Members to increase their knowledge of fraud issues and developments and provides a platform for more in depth discussions than the formal committee setting allows.
- 10.25 Having taken into account the existing arrangements it was agreed at the Member/Officer Group that the current reporting arrangements would not be changed at this time.
- 10.26 However, this will be subject to further consideration, with a view to the production of a consolidated report on fraud, once the management review and service restructures are completed, the Consumer Safety &

Investigations Team is fully established and the overall corporate response to fraud has been determined.

- 10.27 In conclusion, it is clear that appropriate arrangements are in place to acknowledge, prevent and pursue this threat to the authority and that the ongoing developments will ensure that a robust anti-fraud culture is further embedded within Cheshire East Council.

11.0 Access to information

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

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