

AUDIT COMMITTEE

26 SEPTEMBER 2012

FRAUD RESILIENCE STRATEGY

Report from: Internal Audit

Author: Alison Russell, Audit Services Manager

Summary

This report provides an update to the Audit Committee of progress made on the actions included in the Fraud Resilience Strategy

1. Budget and Policy Framework

- 1.1 It is within the remit of the Audit Committee to review the Council's anti-fraud arrangements and anti-corruption measures.

2. Background

- 2.1 In March 2012 the Audit Committee received the Fraud Resilience Strategy for 2012 to 2014. The strategy included an action plan covering both general and service specific issues.
- 2.2 The strategy will be presented to the Audit Committee annually to confirm progress made and plans for future work. Six monthly updates on progress are provided for information.
- 2.3 At **Annex A** is a table summarising progress made in the first six months of the life of the strategy.

3. Risk Management, Financial and legal implications

- 3.1 There are no risk management, financial and legal implications arising from this report.

4. Recommendations

- 4.1 Members to note the progress made on the Fraud Resilience Strategy.

Lead officer contact

Name Alison Russell
Job Title Audit Services Manager
Telephone: 01634 332355
Email: alison.russell@medway.gov.uk

Background papers

Report to Audit Committee 29 March 2012 'Fraud Resilience Strategy'
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=9849>

Fraud Resilience Strategy 2012 to 2014 – Update September 2012

	Action	Notes	Update	Status
1	Publish Fraud Statement.	Once approved by Audit Committee will liaise with HR regarding circulating the Statement.	Fraud statement as set out in the Anti-Fraud and Corruption Policy has been approved and the Constitution updated. The Fraud Statement will be circulated to all staff as part of the intended "Probity day".	In progress
2	Develop fraud response plan (including preliminary review process, sanctions and deterrents and HR protocol and preventative measures).	Working draft in place – to finalise through liaison with HR once Fraud Policy and Fraud Strategy approved by Audit Committee. Consider then reviewing Fraud Policy for 2013 in light of Response Plan.	Fraud Response Plan is being developed alongside the HR protocol for joint working with Audit Services on investigations relating to fraud and financial irregularity.	In progress
3	Management give consideration to fraud risk being reported as part of Risk Management process.	Audit Services to be raising this with management.	Discussed by management and agreed to work on developing fraud risk awareness on the annual Service Plans.	Completed

4	Continue audit led meetings re key fraud risk areas to develop fraud awareness.	Further meetings will be held as part of the roll out of the fraud strategy.	Provision of awareness session for Service Managers in December– intention then to issue global email from Chief Executive to launch an annual “probity day”.	Ongoing
5	Review process for ensuring Monitoring Officer and Chief Finance Officer are informed of all financially related whistleblowing cases.	Process for reporting financially related whistleblowing cases is clear in the relevant policies and is reiterated in the Fraud Strategy. The whistleblowing policy is being presented to AudC 29/3/12 and will then be highlighted to all staff. Liaison with management as part of the fraud strategy roll out will be used to emphasise the importance of reporting whistleblowing cases appropriately.	Whistleblowing policy revised. Reporting and handling of whistleblowing cases will be included in the awareness session being run with Service Managers.	In progress
6	Annual Fraud Risk Assessment work - Outcome of review of fraud vulnerability used to inform decisions on use of limited resources.	CRB, Grants, Contracts and Purchasing – these are areas that have been included on the 2012/13 Annual Internal Audit Plan and work on assessing the fraud risk will continue through 2012/13 and a plan developed for how Audit Services might most effectively address the identified issues. Details of the outcome of the risk assessments and the work plan for the coming year to address these corporate	Review for 2013/14.	Not yet started

		fraud areas is documented in the fraud strategy and risk assessment document presented to Audit Committee.		
7	Process and responsibility for analytical work within Audit Services reviewed – possibly allocate auditor post to analytical work and continuous auditing.	Looking into potential use of data analysis tools for reviewing Schools Financial transactions. Ongoing use and oversight of NFI data matching. Provision by management of data relating to fraud risk assessment areas in order to determine proactive fraud work in these areas.	IDEA licenses resolved. One of the Principal Auditors to provide overview training on the “Principles and Practice of Data Interrogation” and supplemented by 1:1 training on an assignment by assignment basis.	In progress
8	Increase Internal Audit presence in development of processes, project assurance etc to raise fraud awareness and design out fraud risk wherever possible.	Intention is to undertake development audits on Health Governance and Category Management in 2012/13.	Two audits planned for this year focus on areas where processes are being developed – Health and Category Management – both at planning stage. A significant amount of work has been undertaken with management to address issues around Blue Badge fraud.	Ongoing

9	Website presence.	Website pages in draft and will be launched once fraud policy and strategy agreed by Audit Committee 29/3/12.	Internal website now in place for audit and fraud. Next step will be to launch audit and fraud site on external website.	In progress
10	Fraud Awareness Training provided by Audit Services – looking to the possibility of rolling out e-learning.	E-learning package, currently being drafted by another Council, reviewed for potential use at Medway. Initial liaison with HR regarding how this might be adopted and rolled out by the Council. Fraud awareness training provided to School Headteachers and Governors.	Net-consent due to be launched this Autumn which will provide a mechanism for sharing key policies and ensuring they have been read by all staff. Service Managers awareness training being planned.	In progress
11	Audit Services Manager to complete professional investigative practice qualification.	Final modules booked for June.	June training deferred to September.	Should be completed by end of September 2012
12	Evaluation of resources required following review of Authority's vulnerability to fraud.	As the first year where a formal fraud risk assessment has been undertaken the level of resources required to address identified corporate fraud resilience issues is being assessed and reviewed on an ongoing basis. Information relating to resources used in 2012/13 will be used to determine the fraud strategy for 2013/14.	Level of fraud referrals and resourcing required to address these referrals is being monitored and will feed into the 2013/14 fraud strategy.	Ongoing

13	Audit Services Manager to be trained and confirmed as a RIPA Authorising Officer.	Training Course undertaken December 2011 – awaiting confirmation of role as RIPA Authorising Officer for the Council.	Further training received and confirmed as RIPA authorizing officer. All CAFT and others across the Council attended the Medway training session.	Completed
14	Advertising the action taken by Medway Council where fraud has been proven – for both internal and external fraud.	Publicise successful prosecutions, particularly where it might serve as a deterrent to others &/or promote Medway's tough stance ethos. Note that not all publicity may be positive if it implies weak controls were in place that allowed the fraud to occur.	Included proposal in briefing note to AudC July 12.	In progress
15	Consider whether there is a need for a fraud hot-line, to run in addition to the Benefit Fraud hotline and the whistleblowing dedicated telephone line.	Meeting with HR and other areas of the Council to determine whether there is a need for a further hotline.	Briefing note to AudC July 12. Will review again once S-FIS is launched regarding externally reported fraud. Whistleblowing leaflets currently being revised and consideration being given to launching a "hotline" for internal referrals.	In progress

16	Managers dealing with line of business external fraudulent activity should have appropriate arrangements in place for the recovery of funds due to Medway.	Audit Services will review the arrangements in place in key fraud risk areas for dealing with line of business fraud.	The line of business fraud that Audit Services are currently working on are: Blue Badges – see below Tenancy Fraud – see below SPD – see below. Personal Budgets – audit at planning stage. The awareness raising session with service managers is intended to raise awareness of all types of fraud – including line of business.	Ongoing
17	Declaration of Officer Interests should be maintained reviewed annually.	Audit Services will review arrangements for receiving, reviewing and retaining declarations of interest.	Training awareness session for service managers being planned. Idea of “probity day” agreed and declarations of interest will be included. Declarations of interest being reviewed as part of the School probity audits.	In progress

18	Ensure Bribery Act to be reviewed regarding training and reporting arrangements.	<p>This matter has been raised as a high level recommendation in the latest audit of the Council's fraud prevention arrangements.</p> <p>Internal Audit is also advising on money laundering policy and DPA policy.</p> <p>Netconsent due to be trialed.</p>	<p>Bribery Policy to AudC July 12.</p> <p>Ongoing review of policies and awareness training.</p> <p>Draft policy relating to money laundering provided by Audit Services to Legal for consideration.</p> <p>Audit Services providing advice on Data Protection Act policy.</p> <p>Net Consent due to be utilized for the first time in the near future regarding IT use.</p>	<p>Completed</p> <p>Ongoing</p>
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Actions To Be Taken – Area Specific

19	<u>Blue Badges</u>	The Corporate Anti-Fraud Team will complete the current investigation of a case that has been received from another Authority relating to a Badge issued by Medway Council.	Current investigation completed and case now agreed for prosecution. Ongoing referrals being received.	Ongoing
		Identify lessons learned and determine protocol for Corporate Anti-Fraud Team working with Management and Enforcement.	Advice provided around modifications to the Medway BB application form and designing a robust process to identify, investigate and resolve allegations of misuse. Work is ongoing around referral forms, process maps and training.	In progress
		Undertake follow-up of 2011/12 Internal Audit to determine/enhance fraud resilience for the management of Blue Badges	Initial follow up completed and reported to Audit Committee. Further follow up to be completed early 2013/14.	In progress
20	<u>Headcount</u>	CAFT liaise with Payroll regarding any opportunities to enhance controls currently in place, and include review of this area when conducting probity audits	Current controls around headcount fraud were reviewed as part of the "Local management control of Payroll" audit, and through the School probity audits. Further assessment of controls will be provided through the audit of HR data security which will include a review of the security of Self-Serve.	In progress

21	<u>Overtime</u>	CAFT to review the data available and then undertake proactive investigations where there are apparent queries and anomalies.	Overtime has been reviewed as part of the School probity audits. Standardisation of overtime policy also raised as part of an investigation conducted within Children and Adults.	Completed
		Internal audit to continue with planned probity reviews.	The probity work plan has been progressed and consideration will be given to further progressing this assurance this financial year.	Ongoing
22	<u>Timesheet Payments</u>	CAFT to review data and then undertake proactive investigations where there are apparent queries and anomalies.	Timesheet payments have been reviewed as part of the School probity audits and also through two investigations being undertaken.	In progress
		Internal audit to continue with planned probity reviews.	The probity work plan has been progressed and consideration will be given to further progressing this assurance this financial year.	Ongoing
23	<u>Mileage Claims</u>	CAFT to review data and then undertake proactive investigations where there are apparent queries and anomalies.	This work has not yet begun.	Not started
		Internal audit to continue with planned probity reviews.	The probity work plan has been progressed and consideration will be given to further progressing this assurance this financial year.	Ongoing

24	<u>Transport Loans etc</u>	Internal audit work with management to ensure there are clear, unambiguous regulations around the application for and repayment of these schemes, which would support effective investigation and application of sanctions where applicable.	This work has not yet begun.	Not started
25	<u>CRB & vetting</u>	An Audit of CRB and Employment Vetting Processes will be undertaken. The audit will include procedures for all staff working for the Council including temporary staff and contractors. The outcome of the audit will inform future fraud resilience work.	The audit is at present at planning stage.	In progress
26	<u>SPD</u>	NFI exercise.	The Audit Commission released the matches to Local Authorities early in 2012. Medway Council Revenues and Benefits staff reviewed 1283 matches. As a result of this, 108 Single Person Discounts were cancelled and 28 cases are being investigated. Action is being considered on a further 7 cases.	In progress
		Liaison with Management re fraud awareness and fraud resilience.	Met with Management as part of the NFI exercise and highlighted key fraud risk areas.	Ongoing

27	<u>Social Housing</u>	Build on lessons learned from the initial Housing Case that the Corporate Anti-Fraud Team have recently assisted with.	The Corporate Anti Fraud Team (CAFT) are continuing to work with the Housing Team in relation to individual allegations of Housing fraud.	Ongoing
		Work with management to raise awareness of tenancy fraud risk	<p>Procedures and policies are being developed, in line with the Department for Communities and Local Government (DCLG) guidance provided in their 2010 publication "Tackling unlawful subletting and occupancy: Good practice guidance for social landlords."</p> <p>Shared attendance at national training events, and cross-team training being undertaken.</p>	Ongoing
		Develop an agreed protocol for investigating Tenancy Fraud following results of consultation.	This will be developed in light of experience in handling cases and CAFT working with management on fraud resilience issues.	Not started

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