

AUDIT COMMITTEE

21 MARCH 2013

FRAUD RESILIENCE STRATEGY

Report from: Internal Audit

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Summary

This report provides an update to the Audit Committee of progress made on the actions included in the 2012/2014 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 An update was provided by the Audit Services Manager in September 2012.

2.3 At **Appendix 1** is a table summarising progress made in the first 12 months of the life of the strategy. Each of the specific service delivery areas identified in the original action plan have been either progressed or completed. Work has also been undertaken to enhance all generic areas of fraud resilience – the culture of the organisation, fraud awareness, prevention, detection, investigation, sanction and recovery of funds.

2.4 Emerging fraud risks have been identified through Audit Services activity, (including work by both Corporate Anti-Fraud Team and Internal Audit) and recent publications such as the Protecting the Public Purse Report 2012. These emerging issues, along with two further areas of work regarding generic processes have been added to the Action Plan (in bold) and progress will be reported at the next 6-month update. These new areas are the new Council Tax Reduction Scheme & Welfare Reform, Social Fund, Personal Budgets, Local Business Rates, Procurement and Grants. Further areas of fraud risk may be added in-year.

2.5 Audit Services and Corporate Anti-Fraud Team will continue to promote the Fraud Policy Statement and Strategy across the Council.

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 and new emerging fraud risk areas and actions.

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Background papers

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

Report to Audit Committee 26 September 2012 'Fraud Resilience Strategy'
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=17807>

Fraud Resilience Strategy 2012 to 2014 – Update March 2013

	Action	Notes	Update	Status
1	Publish Fraud Policy Statement.	The Fraud Policy Statement has been approved and the Constitution updated (Constitution – Chapter 5 Part 8 - Anti Fraud & Corruption Policy).	<p>The Fraud Statement will be circulated to all staff as part of the intended “Probity day” and included on the Audit Services External Website page.</p> <p>Audit Services to liaise with HR regarding amendments to Employee Code of Conduct to include Fraud Statement.</p>	In progress
2	Develop protocol between Human Resources and Audit Services	Protocol will clearly define the roles and responsibilities of each where there has been an allegation of fraud or financial misconduct by a member of staff or contractor against the council. The object will be to ensure the criminal &/or disciplinary investigations are conducted fairly, objectively, and without any undue delay, in accordance with relevant laws, regulations and policies so as to avoid jeopardising the outcome on legal and procedural technicalities.	<p>Statement in relation to the purpose of the protocol has been agreed</p> <p>Draft protocol produced and subject to consideration / revision before finalization by June 2013</p>	In progress – to be reported to the next Audit Committee

	Action	Notes	Update	Status
3	Develop Fraud Response Plan in conjunction with the HR protocol.	Working draft in place. This will include details of review process, preventative measures/deterrents & sanctions.	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
4	Review of Anti Fraud & Corruption Policy	Fraud Policy Statement, HR Protocol and Fraud Response Plan to be considered as part of a review of the Anti Fraud & Corruption Policy to ensure a consistent message on our anti-fraud culture.	Ongoing review.	In progress
5	Management give consideration to fraud risk being reported as part of Risk Management process.	Audit Services raised this with management.	Discussed by management and agreed to work on developing fraud risk awareness on the annual Service Plans.	Completed
6	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 Resilience Strategy and Fraud Statement. Intention to issue global email from Chief Executive to launch an annual "probity day".	Provision of awareness session for Service Managers on 24/01/13. Fraud awareness session run for School Governors 11/01/13 Planned awareness session with Category Management Team	Ongoing

	Action	Notes	Update	Status
			<p>Further opportunities for raising fraud awareness will be sought</p> <p>Detail of work in specific areas contained in "Area Specific" notes below</p>	
7	<p>Review process for ensuring Monitoring Officer and Chief Finance Officer are informed of all financially related Whistleblowing cases.</p>	<p>Process for reporting financially related whistleblowing cases is clear in the recently revised policy and reiterated in the Anti-Fraud & Corruption Policy and the Employee & Member Codes of Conduct. The Whistleblowing Policy was presented to Audit Committee on 29 March 2012 and has been 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. Monitoring Officer exploring possibility of outsourcing whistleblowing reporting.</p>	<p>Whistleblowing Policy revised (Constitution – Chapter 5, Part 9).</p> <p>Reporting and handling of whistleblowing cases was included in the awareness session run with Service Managers.</p> <p>Whistleblowing Officers webpage updated January 2013.</p> <p>Public Concern at Work have withdrawn their proposal for a free health check of the council's whistleblowing systems.</p>	In progress

	Action	Notes	Update	Status
8	Annual Fraud Risk Assessment work - Outcome of review of fraud vulnerability used to inform decisions on use of limited resources.	<p>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 continued through 2012/13 and a plan developed for how Audit Services might most effectively address the identified issues.</p> <p>Details of the outcome of the risk assessments and the work plan for the coming year to address these corporate fraud areas will be documented in the 2014 -16 Fraud Strategy and risk assessment document presented to Audit Committee.</p>	<p>2012/13 audits to be completed by July 2013. All of these risk areas are included in the 2013/14 Audit Plan</p> <p>2013/14 Audit Plan includes further audits for strengthening fraud resilience including an audit of the Social Fund – see “Area Specific” notes below</p>	Work in progress.
9	Process and responsibility for analytical work within Audit Services reviewed – possibly allocate auditor post to analytical work and continuous auditing.	<p>Looking into potential use of data analysis tools for reviewing Schools Financial transactions.</p> <p>Ongoing use and oversight of NFI data matching.</p> <p>Provision by management of data relating to fraud risk assessment areas in order to determine proactive fraud work in these areas.</p>	IDEA licenses resolved. One of the Principal Auditors provided overview training on the “Principles and Practice of Data Interrogation” to be supplemented by 1:1 training on an assignment by assignment basis.	Ongoing
10	Increase Internal Audit presence in development of processes, project assurance etc to raise fraud awareness	Intention is to undertake development audits on Health Governance and Category Management in 2012/13.	Health Governance audit was reported to Audit Committee in December 2012.	Complete

	Action	Notes	Update	Status
	and design out fraud risk wherever possible.		<p>Category Management audit commenced for completion by July 2013.</p> <p>Audit of Capital Projects in 2013/14 will review processes in place to mitigate fraud risk</p>	<p>In progress</p> <p>Not Started</p>
11	Website presence.	<p>Internal website now in place for audit and fraud.</p> <p>External website pages in draft and will be launched once the council wide review</p>	<p>Next step will be to launch audit and fraud site on external website.</p>	<p>Complete</p> <p>In progress</p>
12	Fraud Awareness Training provided by Audit Services – looking to the possibility of rolling out e-learning.	Fraud awareness training provided to School Headteachers and Governors.	<p>Presentation to Service Managers 24/01/13 and planned presentation to Category Management team. Still awaiting an update on Net-consent which was due to be launched in Autumn 2012 and will provide a mechanism for sharing key policies and ensuring they have been read by all staff.</p>	In progress

	Action	Notes	Update	Status
13	Audit Services Manager to complete professional investigative practice qualification.	Training undertaken with Bond Solon.	Training was completed in September 2012.	Completed
14	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 in 2012/13 has been captured and it is estimated the resource that was committed to progress delivery of the Fraud Strategy (excluding the direct audit time) was 2 ½ FTE. We anticipate committing the same level of resource over 2013/14.	Ongoing
15	Audit Services Manager to be trained and confirmed as a RIPA Authorising Officer.	Training Course undertaken December 2011. Confirmed as RIPA Authorising Officer for the Council. Further training received and confirmed as RIPA authorizing officer. All Corporate Anti-Fraud Team and others across the Council attended the Medway training session.		Completed
16	Advertising the action taken by Medway Council where fraud has been proven – for	The intention is to publicise successful prosecutions, particularly where it might serve as a deterrent to others &/or	Ongoing discussions with Legal Services	In progress

	Action	Notes	Update	Status
	both internal and external fraud.	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.		
17	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.	We have met with a number of service areas across the Council to determine what processes and structures need to be in place prior to the launch of a fraud hotline. Briefing note to Audit Committee July 2012.	Agreement reached to introduce a dedicated fraud hotline. It is hoped that the hotline will be launched in the near future	In progress
18	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 specific line of business fraud areas that Audit Services are currently working on, and have planned for 2013/14 are listed in the next section The awareness raising session with service managers covered all types of fraud – including line of business.	Ongoing
19	Declaration of Officer Interests should be maintained and reviewed	Audit Services will review arrangements for receiving, reviewing and retaining declarations of interest.	Presentation to Service Managers 24/01/13 highlighted the	In progress

	Action	Notes	Update	Status
	annually.		importance of this issue Idea of “probity day” agreed and declarations of interest will be included. Declarations of interest being reviewed as part of the School probity audits, and raised through a number of investigations and audits. Currently liaising with the Monitoring Officer regarding this issue.	
20	Ensure Bribery Act to be reviewed regarding training and reporting arrangements.	This matter has been raised as a high level recommendation in the latest audit of the Council’s fraud prevention arrangements. Internal Audit is also advising on Money Laundering Policy and Data Protection Act policy. Netconsent due to be trialled.	Bribery Policy to Audit Committee July 12. Ongoing review of policies and awareness training. Draft policy relating to money laundering provided by Audit Services to Legal for consideration. Audit Services providing advice on Data Protection Act Policy.	Completed Ongoing Ongoing

	Action	Notes	Update	Status
21	Review Sanction Policy to include reference to Council Tax Reduction Scheme and other types of fraud.	To consider the implications of new legislation & regulations including: - The Social Security (Civil Penalties) Regulations 2012, The Council Tax Reduction Schemes (Detection of Fraud & Enforcement) (England) Regulations 2013 and The Prevention of Social Fraud Housing Fraud Bill 2013 and The Disabled Persons' Parking Badges Bill.		Not started
22	Obtain explicit authority for Corporate Anti-Fraud Team to conduct criminal investigations and gain access to information in all Medway business areas.	Obtain direct consent from Chief Executive or through amendment to the Medway Anti – Fraud & Corruption Policy.	Draft authorisation produced.	In progress

Actions To Be Taken – Area Specific

	AREA	NOTES	UPDATE	
23	<u>Blue Badges</u>	The Corporate Anti-Fraud Team continuing to refine investigation procedures & protocols.	First successful prosecution for BB fraud completed 14 November 2012. Ongoing referrals being received and monitored. Three active investigations in progress.	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 2013/2014.	In progress
		Consider the implications of The Disabled Persons' Parking Badges Bill which received Royal Assent on 31 January 2013 (enactment date not yet known).	Work ongoing around process of investigation and interaction with enforcement.	Ongoing

	AREA	NOTES	UPDATE	
24	<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. The audit of HR data security included a review of the security of Self-Serve. 2013/2014 Audit Plan includes audit of payroll and also ongoing probity programme in Schools	In progress
25	<u>Overtime</u>	Corporate Anti-Fraud Team 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.	2013/2014 Audit Plan includes audit of payroll and also ongoing probity programme in schools.	Ongoing
26	<u>Timesheet Payments</u>	Corporate Anti-Fraud Team 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.	2013/2014 Audit Plan includes audit of payroll and also ongoing probity programme in schools.	Ongoing
27	<u>Mileage Claims</u>	Corporate Anti-Fraud Team to review data and then undertake proactive investigations where	This work has not yet begun.	Not started

	AREA	NOTES	UPDATE	
		there are apparent queries and anomalies.		
		Internal audit to continue with planned probity reviews.	2013/2014 Audit Plan includes audit of payroll and also ongoing probity programme in Schools	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.	Initial assessment of Council procedures has been undertaken. Next step is to discuss these issues with management. 2013/2014 Audit Plan includes audit of payroll including overpayments – which is likely to pick up any issues regarding the arrangements for transport loans etc	In Progress
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. Attended a presentation by CIFAS on staff vetting and is intending to share the good practice guide entitled “Slipping Through the Net” with management	In progress
26	<u>SPD</u>	National Fraud Initiative 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.	Completed

	AREA	NOTES	UPDATE	
		Liaison with Management re fraud awareness and fraud resilience.	Met with management as part of the NFI exercise and highlighted key fraud risk areas.	Completed
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 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	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." Shared attendance at national training events and in-house presentations plus cross-team training being undertaken.	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 Corporate Anti-Fraud Team working with management on fraud resilience issues.	In progress
		Work with external Social Housing Providers e.g. mhs homes to undertake targeted tenancy audits, data matching exercises and other proactive / reactive fraud exercises.	Application submitted for DCLG funding (£200,000 over 2yrs). Bids currently subject to consideration by Ministers with successful parties notified by end March 2013.	In progress
		Right to buy	Liaison taken place with the individual responsible for the management of right to buy and processes adapted to reduce the risk of fraud.	Ongoing

	AREA	NOTES	UPDATE	
28	<u>Social Fund</u>	An audit of the local authority arrangements for the Social Fund is scheduled for Quarter 1 of 2013/2014	Initial liaison with management has been undertaken regarding planned approach for the management of this fund.	Not started
29	<u>Personal Budgets</u>	Personal budgets are identified in Audit Commission & National Fraud Authority publications as an area of high value fraud risk.	Building on the audit (March 2013) the Corporate Anti-Fraud team will liaise with Children & Adults Services in developing an action plan in relation to fraud deterrence / investigation.	Not started.
30	<u>Council Tax Reduction Scheme / Welfare Reform / Local Business Rates</u>	Annual audit of Council Tax and Local Business Rates will review new arrangements Ongoing liaison between Corporate Anti-Fraud Team & Benefits regarding the new arrangements	Presentation provided by Benefits to Corporate Anti-Fraud Team on 26 February 2013.	Not started
31	<u>Grants</u>	Audit of grant management was conducted in 2012/2013. Audit of grant payments is scheduled for 2013/14.	2012/2013 audit provided key background information on the high level arrangements for managing grant income.	In Progress
32	<u>Procurement</u>	Audit of category management included in the 2012/2013 audit plan. The 2013/2014 audit plan includes a further allocation of time to continue with work relating to procurement. Procurement arrangements in Schools are included in the Schools Probity programme	Findings from the Schools probity programme have been fed into the 2013/14 audit planning process	In Progress