

AUDIT COMMITTEE

29 MARCH 2012

FRAUD RISK ASSESSMENT 2012/2013 AND FRAUD RESILIENCE STRATEGY 2012-2014

Report from: Internal Audit

Author: Alison Russell, Audit Services Manager

Summary

This report presents to the Audit Committee the Corporate Fraud Risk Assessment and Fraud Resilience Strategy

1. Budget and Policy Framework

- 1.1 Following the Council's decision to establish this committee, it is within the remit of this committee to review the Council's anti-fraud arrangements and anti-corruption measures.

2. Background

- 2.1 In November 2011 the Audit Committee received a report from PKF regarding the Council's level of fraud resilience. A series of recommendations was made and management presented an action plan for strengthening the current arrangements in place.
- 2.2 The first step in considering fraud resilience is to understand the level of risk that the Council is exposed to, and therefore a Corporate Fraud Risk Assessment is being developed, with the first outcomes of assessment completed and ensuing work identified. This is set out at Annex A. Each year the Fraud Risk Assessment will be reviewed and developed further.
- 2.3 A Fraud Resilience Strategy for the next two years has been developed and is attached at Annex B. This includes a plan for delivering the outstanding actions from the PKF review. The Fraud Resilience Strategy will be presented annually to demonstrate work undertaken, progress made against strategy, and plans for future work.
- 2.4 A Diversity Impact Assessment screening was undertaken for the Fraud resilience Strategy and it is noted that it is not necessary to undertake a full impact assessment. This is attached at the end of Annex B.

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 are asked to note the Fraud Risk Assessment 2012/2013 and Fraud Resilience Strategy 2012-2014.

Lead officer contact

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

Background papers

None.

Fraud Risk Assessment

Purpose/objective

To identify the level and profile of fraud risk within Medway.

Scope

This is a fraud risk assessment for all of the Council – covering both internal fraud and fraud committed against the Council by a third party. When assessing fraud risk it should be recognised that fraud can never be entirely mitigated, and that the risk profile is determined by the nature of the process and transactions. However it is a duty as a public body to ensure that all reasonable steps have been taken to minimise the risk of fraud.

The specific fraud risk assessments recorded here are inclusive of Medway's Schools, however there is also a separate ongoing risk assessment relating to these Schools which is being used to determine the focus of the probity reviews being undertaken by Internal Audit. The focus on the risk assessment for 2012/13 is the identified high-risk areas in the National Fraud Authority Report entitled "Eliminating Public Sector Fraud". The National Fraud statistics included in this document relate only to Local Authorities and demonstrate the significance of fraud risk at a national level. They should however be used with caution as the methodology used by the NFA for determining these figures has not been published.

The assessment of fraud in these areas should be understood within the overall internal control environment, which is subject to a programme of internal audit, and reported to Audit Committee at each meeting. The scope of the risk assessment performed within the specific areas reviewed is detailed in this document.

The assessment will develop over time, but this first year's exercise focuses on high risk fraud areas as identified in the NFA Report:

- Blue Badges
- Payroll
 - Headcount
 - Overtime
 - Timesheets
 - Mileage Claims
 - Loans
- CRB and Employment Vetting
- Council Tax Single Person Discount
- Social Housing Tenancies

Benefit fraud is another area included in the national statistics but has not been included in this risk assessment as it is already subject to robust investigation process and Audit Committee receive details of outcomes of the investigations at each meeting of the Committee.

Process

Step 1: Source Data was obtained for each area under review. This data included

- Materiality of area – value and number of transactions
- Audit findings history
- Audit investigations history
- Control environment
- Key policies and procedures

Step 2: We held meetings with relevant operational managers to determine any issues/concerns/ incidents. We also ascertained arrangements for investigating any errors/fraud.

Step 3: Documentation of residual fraud risk, based on evaluation of the risk against a suite of generic factors. These factors and an outline of the scoring methodology is set out in the table shown later on this page.

Step 4: The materiality of the activity at Medway has also been recorded against each fraud risk area, in terms of overall value (using 2011/12 figures where available) and also value per transaction. The National Statistics recording calculated level of fraud at a national level, as set out in the NFA “Eliminating Public Sector Fraud” is also documented for each fraud risk area.

Step 5: The potential impact of improved fraud resilience identified

Step 6: Proposed work for 2012/13 identified and recorded for each area and reflected in the 2012/13 Fraud Resilience Strategy

Factors that determine the level of fraud risk have been identified. For each of the areas reviewed the factors have been evaluated and scored out of 10, with the score of one being the highest fraud risk, and 10 meaning that that factor does not increase the level of fraud risk at all.

ANNEX A

Scoring Methodology		
	Risk Factor	Rating Assessment
1	Economic Environment	1 = time of economic recession 10= economic boom
2	Cash	1 = process is cash based 10 = no cash or cheque transactions
3	Volume of transactions/ 'Population' size	1 = over 10,000 per annum, 12,000 population 10 = less than 50 per annum, less than 1000 population
4	Level of reliance on local controls	1 = no central control 10 = centrally controlled – no input from local management
5	Robustness of controls	1 = "uncontrolled" audit opinion in last two years and not amended 10 = "good" audit opinion in last two years
6	Recent changes	1 = changes to staff, structures and framework in last 12 months 10 = no change – embedded system and processes
7	Clarity of policy re fraud issues	1 = no policy in place 10 = clear, circulated and up to date
8	Impact on Medway Council	1 = heavy fines, front page news, failure to achieve objectives 10 = no fines, no press interest and no operational impact
9	Fraud awareness of staff and claimants	1 = None 10 = awareness and knowledge by all staff involved and advertised effectively
10	Successful investigations to Criminal Level	1 = none 10 = all successful and identified promptly

Blue Badges

National Fraud Figures – Blue Badges - £46m

Summary

The Blue Badge scheme provides a range of parking concessions for people with severe mobility problems who have difficulty using public transport. The badge enables holders to park close to where they need to go. The scheme operates throughout the UK, and is administered by County/Unitary local authorities who deal with applications and issue badges. Some individuals have automatic right to a badge whilst others have to apply and it is deemed “discretionary”. Badges are issued for a set period, usually three years, and then the individual has to reapply.

Scope

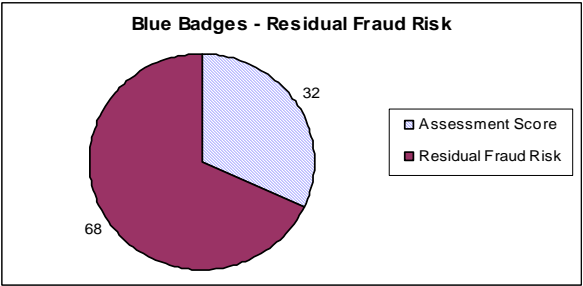
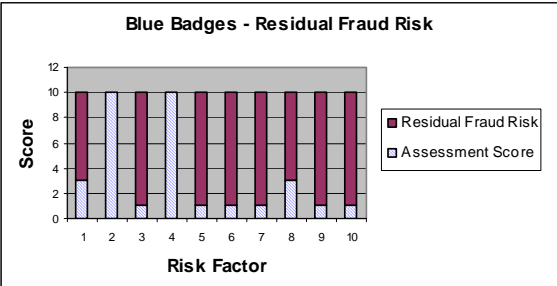
This risk assessment does not include the misuse of Blue Badges from parking violations. These would be handled as part of the on-street enforcement teams, although it would be anticipated that many of the referrals to the Corporate Anti-Fraud Team would be from this source. The focus of this assessment is where an investigation into Blue Badge fraud could potentially lead to prosecution.

History

Internal Audit - The 2011/12 internal audit of the administration of Blue Badges in Medway identified that there were significant weaknesses in the processes in place for administering and enforcing compliance with the scheme, and work with management since has identified a lack of clarity as to who should be responsible for investigating fraudulent use of a Blue Badge.

Risk Assessment

Medway Council Materiality: 12582 (Number of badges issued)
Cost of Administration per Badge £6.00



The potential implications of increased fraud resilience could be:

- enhanced service delivery through ensuring parking spaces used appropriately
- increase in parking income but this is difficult to quantify
- reduction in administrative time and costs

Approach for 2012/13

- 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.
- Identify lessons learned and determine protocol for Corporate Anti-Fraud Team working with Management and Enforcement.
- Undertake follow-up of 2011/12 Internal Audit to determine/enhance fraud resilience for the management of Blue Badges

Payroll

National Fraud Figures – Payroll and Recruitment - £152m

Overall Summary

The materiality of payroll to any organisation is high, and for Medway represents a significant proportion of the Council's overall expenditure. Payroll audits undertaken on a cyclical basis have consistently found that there are robust central controls for ensuring accurate payments made for joiners, leavers, and salary amendments, and deductions are appropriate.

Scope

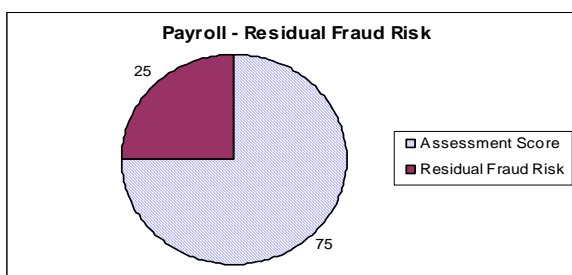
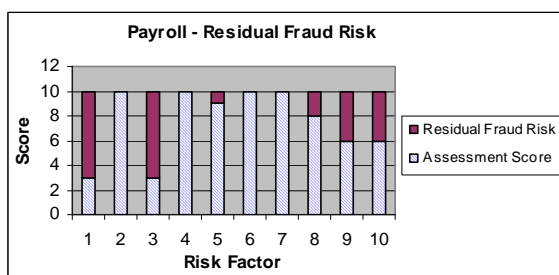
The payroll related fraud risk assessments recorded below focus largely on areas that are largely reliant on locally applied controls and there is limited oversight from the Centre. The exception to this is the risk assessment of "headcount", which has been included due to a recently prosecuted case.

Audit History – cyclical payroll audits undertaken on average every three years, provide assurance over the centrally managed procedures. Payments through payroll are included in the scope of probity reviews in satellite sites.

Risk Assessment

Medway Council Materiality: £177m
--

Medway Council Average: £20.77k
--



The potential implications of increased fraud resilience could be:

- Increased line manager vigilance resulting in reduction of inappropriate claims and other payroll transactions made and processed
- Reduction of payroll costs
- Recovery of identified overpayments through effective investigations
- Increased number of cases of staff being dealt with through Medway's disciplinary process or criminal proceedings

Below are outlined the Fraud Risk Assessments for each area and proposed approach for 2012/13

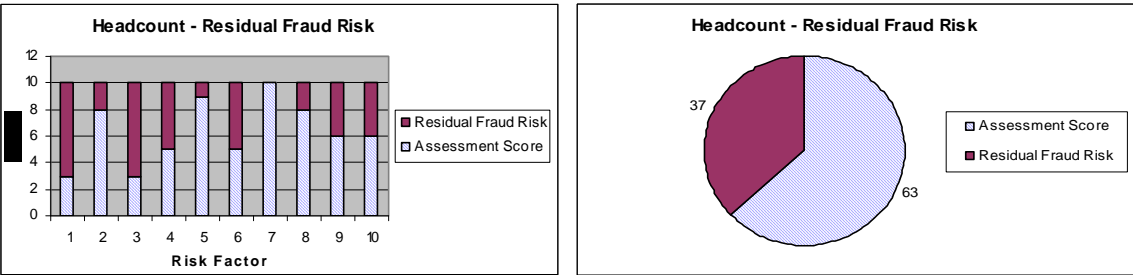
Headcount

Summary:

With payroll there is a risk of “ghost” employees where individuals details are added to the payroll fraudulently. Similarly there is a risk that staff who have left employment continue to be paid, or payments continue to be made but to an amended bank account

Risk Assessment

Medway Council Materiality: £177m
Medway Council Average: £20.77k



Approach 2012/13

This is an area that is centrally managed by payroll. There are robust controls in place. The approach we intend to adopt is to liaise with Payroll regarding any opportunities to enhance controls currently in place, and include review of this area when conducting probity audits.

Overtime Claims

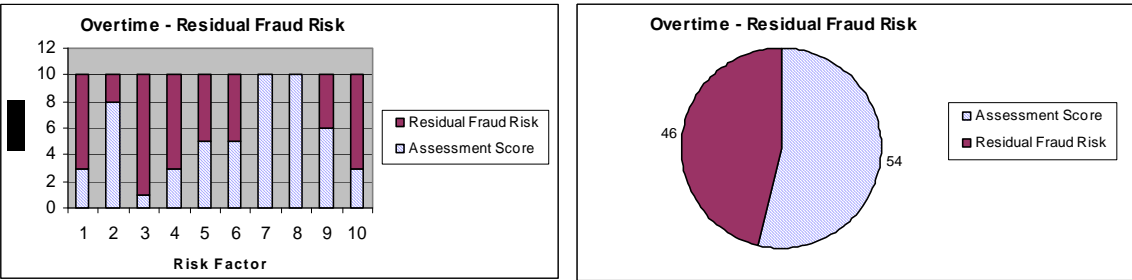
Summary:

There is a standard overtime form. These forms require authorisation by line management. The claims are processed and paid by HR through payroll.

Rates of overtime are calculated automatically by the payroll system

Risk Assessment

Medway Council Materiality: £1528728
Medway Council Average £109.00



Approach 2012/13

The policies and claim forms relating to overtime support effective investigation, and there is sufficient data available to support initial interrogation of data to provide guidance on where further investigation may be required. It is therefore the intention to review the data available and then undertake proactive investigations where there are apparent queries and anomalies. We intend to liaise with HR throughout this process.

The probity reviews being undertaken by Internal Audit will continue to review overtime payments relating to the sites visited.

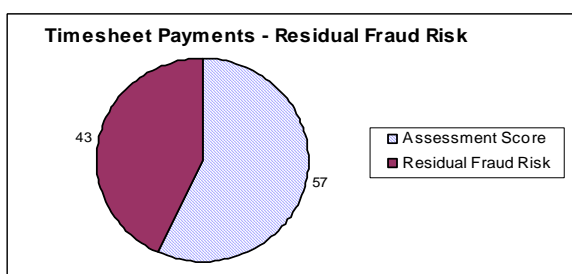
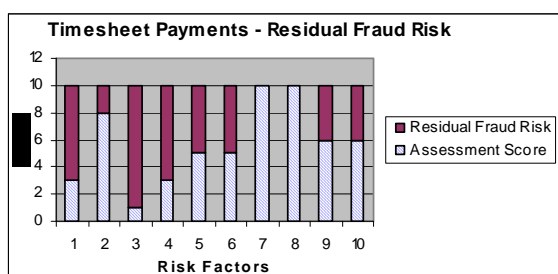
Timesheet Payments

Summary:

The only payments made by Payroll directly based on timesheets relate to temporary agency staff. There is an agency timesheet provided by HR for completion by the individual, and also a timesheet for use by casual staff on “zero contracted hours”. The timesheet must be authorised by management, and is then forwarded to HR for processing.

Risk Assessment

Medway Council Materiality: £4,260,945
Medway Council Average: £363.00



Approach 2012/13

The policies and claim forms relating to timesheet payments support effective investigation, and there is sufficient data available to support initial interrogation of data to provide guidance on where further investigation may be required. It is therefore the intention to review data and then undertake proactive investigations where there are apparent queries and anomalies. We intend to liaise with HR throughout this process.

The probity reviews being undertaken by Internal Audit will continue to review timesheet payments relating to the sites visited.

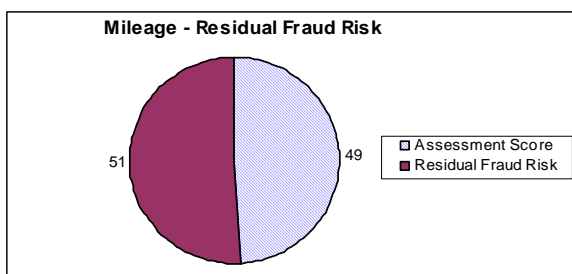
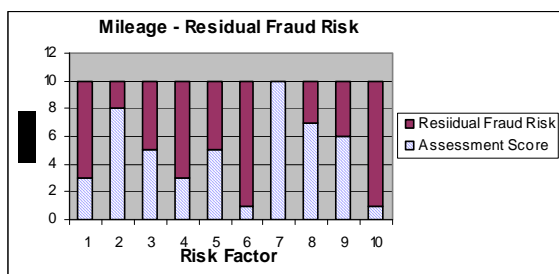
Mileage Claims

Summary:

Mileage claims have until recently been made by individuals using a standard HR claim form, authorised by management, processed by HR and paid through payroll. Mileage claims can now be processed through the pay self-service system where the claim is input online by the individual, and authorised on line by the designated authoriser, before automatic forwarding to HR. When staff members make a mileage claim they are required to confirm the car details as held on the HR system. It is the claimant's responsibility to ensure that the vehicle is insured for business use and in a road worthy state.

Risk Assessment

Medway Council Materiality:£911,685
Medway Council Average: £92.00



Approach 2012/13

The policies support effective investigation, and there is sufficient data available to support initial interrogation of data to provide guidance on where further investigation may be required. It is therefore the intention to review data and then undertake proactive investigations where there are apparent queries and anomalies. Audit Services will liaise with HR throughout this process.

The probity reviews being undertaken by Internal Audit will continue to review mileage payments relating to the sites visited.

Transport Loans, Assisted Purchase and Lease Schemes

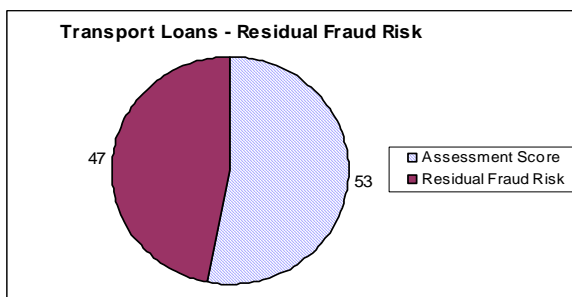
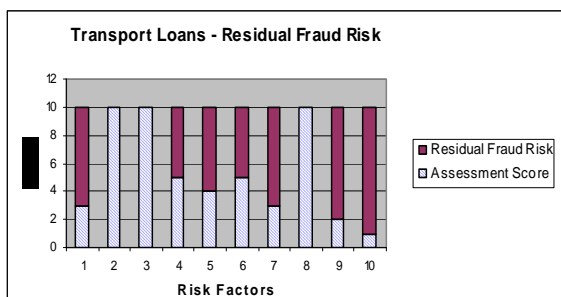
Summary:

Interest free loans and assisted purchase schemes are provided to staff for the following reasons:

- Cycle Loans – up to £1000, maximum term two years, interest free. All employees eligible to apply
- Train or Bus Season Ticket Loans – up to £2k, maximum term one year, interest free. All employees eligible to apply. The scheme policy states that this is open to all staff and apart from the need to ensure the loan is repaid and that the amount claimed is not more than the value of the ticket purchased, there is a lack of clarity in the guidance relating to when a loan would need to be repaid.
- Assisted Car Purchase Scheme – maximum term 5 years for new car and 4 years for used. Employees are eligible to apply if they are designated essential or dedicated users who have not taken up the car lease scheme, or are in receipt of the Special Allowance.
- Lease Car Scheme – only dedicated users are eligible to apply under this scheme

Risk Assessment

Medway Council Materiality: £174,216
Medway Council Average: £1,778.00



Approach 2012/13

The number of transactions in this area is low, but with a value per individual case being reasonably high. The intention is to 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.

CRB and Employment Vetting

National Fraud Figures – Payroll and Recruitment - £152m

Summary

The Council has to ensure that individuals are eligible for working for and within the Council in their designated roles. The Council's policies require that pre-employment checks are completed, including checks to confirm identity, right to work, education background and work history. Criminal Records Bureau checks are required for a number of permanent roles, but will also be required for temporary staff, volunteers and contractors.

Scope

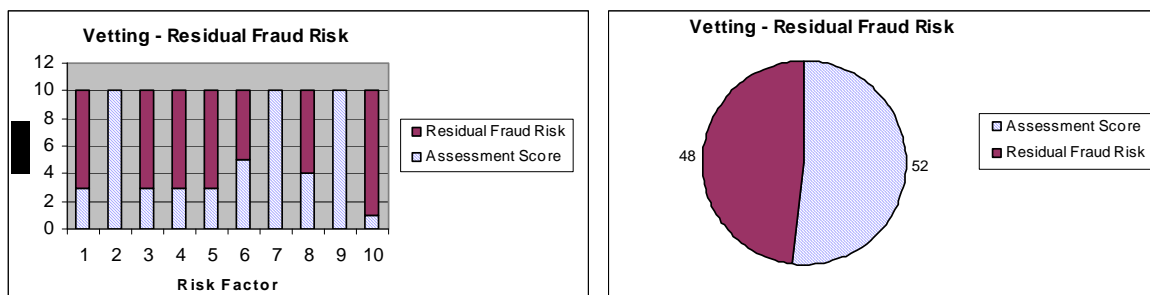
The risk assessment recorded below relates to cases where an individual has provided false representation of a relevant material fact in order to gain employment at the Council.

History

Audit – 2009/10 – Safer Recruitment in Schools where the overall audit opinion was that the controls in place were “insufficient”

Risk Assessment

Medway Council Materiality - £177m (+ contractors)



Approach 2012/13

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 potential implications of increased fraud resilience could be:

- Greater protection of vulnerable children and adults

Housing Benefit

National Fraud Figures:

Summary

Housing benefit is a means-tested benefit that is payable to people on a low income who are liable to pay rent for accommodation they are occupying as their home.

Scope

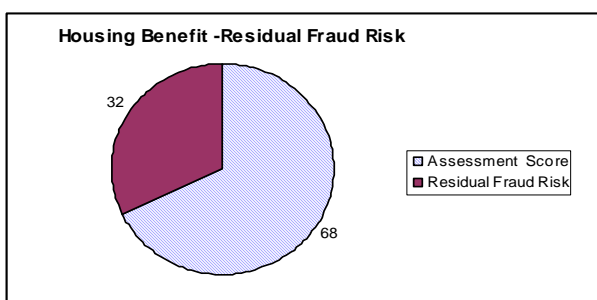
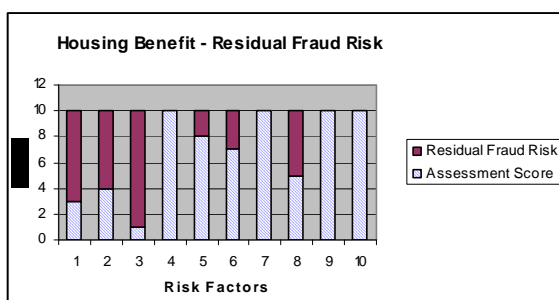
The assessment below relates to all Housing Benefit fraud. The Corporate Anti-fraud team investigate Housing Benefit frauds, using investigatory function and powers for Local Authorities as set out in the Social Security Administration Act 1992

History

Internal Audit – Housing Benefits is subject to an internal audit each year and the internal controls have been found to be robust

Risk Assessment

Medway Council Materiality: £98m



Approach 2012/13

The fraud risk assessment has found that the level of residual fraud risk is unlikely to be reduced further. The control scores are high, and the level of residual risk is largely driven by factors that cannot be mitigated further e.g. transaction levels and economic climate. For this reason there is no planned targeted fraud resilience work planned in this area for 2012/13, although the area will be subject to the annual internal audit and should concerns be identified as a result of that audit then resources would be allocated to reviewing the matter further.

Council Tax Single Person Discount

National Fraud Figures: Council Tax Fraud £90m
--

Summary

There are a number of council tax discounts available for qualifying households. Single Person Discount is a discount of 25 per cent that can be applied to the council tax bill of a household where there is only one adult occupier 18 years of age or more. Residents of Medway have to apply for this discount. This discount is by far the most material of all the exemptions/discounts for Council Tax within Medway.

Scope

The latest figures for Medway are that there are 32,633 live cases of single occupier discount. The Corporate Anti-Fraud team has undertaken a significant number of “Living Together” benefit investigations which have resulted in corrections in SPD awarded. There have been limited cases investigated relating solely to SPD fraud.

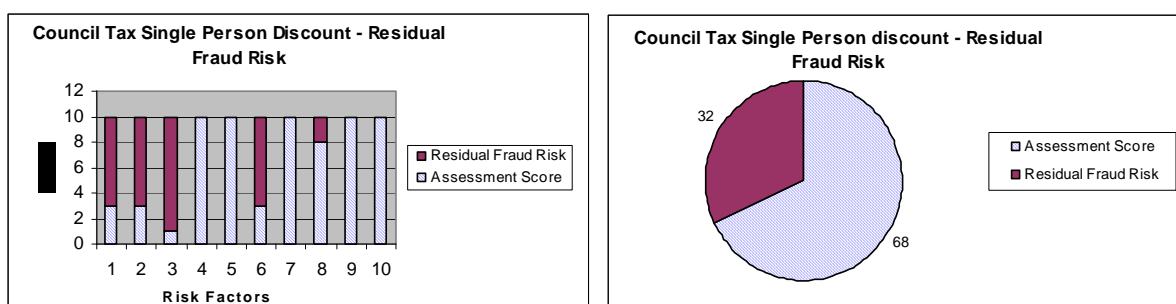
History

Internal Audit – Council Tax is subject to an internal audit each year and the internal controls have been found to be robust

Risk Assessment

Medway Council Materiality: £ 9.6m SPD
--

Medway Council Average: £296.00



Approach 2012/13

- Liaison with management to agree the approach for undertaking the review of matched data provided through the NFI
- Determine further work based on the outcome of the NFI exercise

The implications of increased fraud resilience would be:

- Increased income through less discounts approved/continued
- Increased recovery of overpayments of single person discount
- Reduced administrative costs

Social Housing Tenancy Fraud

National Fraud Figures: £900m

Summary

Social housing tenancy fraud is one of the most significant areas of fraud facing Local Government. It has long been identified by the Audit Commission as an area for concern, and is a priority area for the National Fraud Authority.

Currently most forms of unlawful occupation, including subletting, are civil matters rather than criminal offences, for instance penalties limited to loss of tenancy, damages & costs. There is a consultation document from the Department for Communities & Local Government. The purpose of the consultation is:

- To invite view on whether existing legislation needs to be strengthened to reduce prevalence of tenancy fraud in social housing.
- Explore a wider range of enforcement tools.

Proposals put forward in consultation paper: -

- New criminal offence of Social Housing Tenancy fraud. Penalties to include fine / custodial sentence or both. Profits could be confiscated & restitutionary payment made to the local landlords
- Tried in Magistrates with a maximum sentence imposed of 6 months and a £5k fine or if tried in Crown Court 2yrs imprisonment and a £50K fine
- Currently money confiscated under POCA goes back to state. Propose giving powers to the court trying the offence to make an order for any sum to be recovered from the defendant as a debt owed to the local landlord.
- Increase the existing powers of the Local Authorities to prosecute for tenancy fraud matters on behalf of the Housing Associations.
- Introduce powers for investigators to compel certain named categories of organisation to comply with local authorities requests for data

The consultation period ends 04 April 2012.

Scope

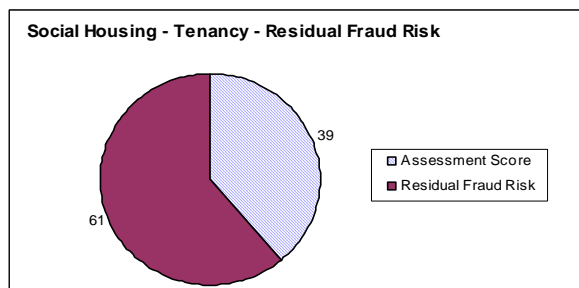
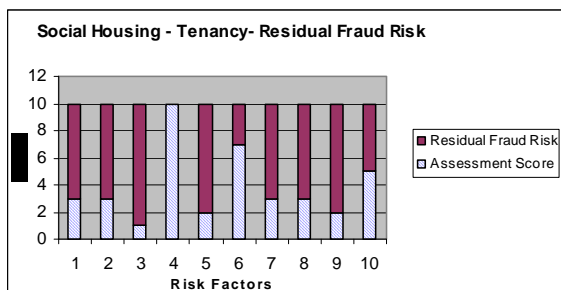
The potential risks of Social Housing Tenancy Fraud are outlined in the consultation document as relating to unlawful occupation. This can be due to the subletting the whole of the home, key-Selling and unauthorised succession

History

Internal Audit – Internal Audit undertake an annual review of Housing Rents – the most recent has an opinion of “Insufficient”.

Risk Assessment

Medway Council Materiality: £10m



Approach

- Build on lessons learned from the initial Housing Case that the Corporate Anti-Fraud Team have recently assisted with
- Work with management to raise awareness of tenancy fraud risk
- Work with management and liaise with Housing Associations/Landlords regarding the Department for Communities & Local Government – Consultation document
- Develop an agreed protocol for investigating Tenancy Fraud following results of consultation

The implications of increased fraud resilience would depend on the outcome of the consultation, but overall it should:

- Ensure housing stock is available to those who are legally entitled to it
- Reduction in waiting times and numbers in temporary accommodation.

Fraud Resilience Strategy 2012 to 2014

This is Medway Council's first documented Fraud Resilience Strategy. The purpose of the Strategy is to set out the road map for delivery of the Council's aims and objectives for managing the risk of fraud. This strategy supports the Council's Anti-Fraud and Corruption Policy and Whistleblowing Policy, as well as the Employee Code of Conduct, and the HR Disciplinary Procedure. The Anti-Fraud and Corruption Policy details the type of offences covered by the policy and it is this range of offences that this Strategy covers, but for the purpose of this document all offences are referred to as "fraud" unless otherwise stated.

The Strategy sets out how the Council aims to meet the challenges it faces, particularly in the current fraud risk climate which is high due to the national economic downturn, and also the significant change management programme currently being undertaken within the Council.

Medway Council invited PKF to undertake an assessment of resilience to fraud across the Council, and this report was presented in 2011. The assessment identified a number of weaknesses in the current arrangements, and key areas of weakness were the lack of a fraud strategy and risk assessment, but more broadly the lack of proactive fraud work. This document, and the accompanying risk assessment provide detail of a clear roadmap for enhancing fraud resilience, which will involve targeted proactive fraud work, both in terms of prevention and detection.

The National Fraud Authority has commenced the development of a local authority strategy '*Fighting Fraud Locally*', which intends to reflect the importance of local authority fraud and the work under way, and still to be done, to address it. This report is due imminently and is likely to highlight the levels of fraud risk within each Local Authority.

Fighting Fraud Locally (2011) is about:

- improving local government response to fraud and corruption
- enabling local authorities to become better protected from fraud
- helping local authorities strengthen their ability to detect and punish fraudsters.

The National Fraud Authority has set out its strategy for dealing with public sector fraud, which involves four parts:

- Collaboration – a high level Government wide exercise to remove the silos across all parts of the public sector and looking to jointly procure analytics
- Assessment of risk and measurement of losses – assessing fraud risk before projects and programmes are underway. Reporting losses quarterly

- Prevention – investment and resource on prevention not just detection and punishment. Designing out vulnerabilities
- Zero tolerance – there is no acceptable level of fraud

Collaboration

Fraud does not occur in neat silos, but can easily cut across management units within the Council, and also across other government Departments and Agencies.

Management of fraud risk is a concern and responsibility of all who work within or for the Council, but there are also specialist teams with defined specialist roles in fraud resilience. The Audit Services Team (incorporating the Audit Services Manager, Corporate Anti-Fraud, and Internal Audit) is the team that lead on the Council's fraud resilience arrangements. There are other specialist teams, all of which are listed in the whistleblowing policy, and Audit Services will liaise with each of these teams as appropriate.

Internal

Within the Council, there needs to be a joined up and coherent approach to fraud management.

The Chief Finance Officer has overall responsibility for the management of financial risk to the Council and has therefore overall responsibility for fraud matters. By having one main point of responsibility for monitoring and recording fraud it enables the Council to ensure:

- Investigations undertaken across the Council are reported to the Audit Committee
- Consistency over approach to determining investigations and referrals to external agencies

One key part of Medway's fraud resilience needs to be its use of shared data, where one part of the Council might have information that is relevant to other parts of the Council. By failing to share this information there is a risk that frauds are not identified, and also that any later prosecution might be seriously impeded by the fact that this information was not shared effectively. However, the opportunity to share data may be limited by the requirements of the Data Protection Act 1998, and therefore all data sharing for fraud resilience purposes must be undertaken under approved agreed protocols.

Work will be ongoing to identify opportunities for collaboration across the Council to enhance fraud resilience.

External

There are some examples of joined up arrangements with agencies external to the Council:

- Department for Work and Pensions (DWP)– Joint investigation of Benefit fraud
- National Fraud Initiative (NFI) - Audit Commission cross matching LA data.
- National Anti Fraud Network (NAFN) - Provides support to LAs in protecting public funds in the following areas: Debt recovery, Council Tax, Investigations, Benefit Fraud, Trading Standards, Environmental Health, Internal Audit, Housing, Parking, Procurement.
- Police - SLA with local police regarding sharing data on benefit claimants
- The Kent & Medway Information Sharing Agreement which goes beyond the SLA between Police & Audit
- KCC - the investigation of duplicate Blue Badges across Kent

Internal Audit plan to review partnership working and collaboration agreements already in place across the Council in line with the National Fraud Authority “Fighting Fraud Locally” strategy. Opportunities for further collaboration may arise over the coming 12 months as a result of the Government initiative to improve cross-public-sector working

There are also a number of information sharing forums that the staff in Audit Services attend – including Kent Investigators Officer Group, LAIOG (Local Authority Investigation Officer Group), CIPFA (Chartered Institute of Public Finance and Accountancy). All of these groups help ensure that Medway’s approach to fraud is in line with recognised good practice.

Fraud Risk Assessment

The first stage for this strategy was an assessment of the risk of fraud within Medway Council. The purpose was to determine the most appropriate application of counter fraud measures, and provide a basis for assessing the effectiveness of the measures put in place. The methodology for assessing the risk of fraud is set out in the fraud risk assessment document, which will be reviewed on an annual basis. The focus for this first assessment was the areas of high risk as identified in the National Fraud Authority’s report “Eliminating Public Sector Fraud”. The Risk Assessment undertaken in 2012 is the first formal fraud risk assessment undertaken by the Council, and this will be updated and progressed year on year in order to provide a full profile of the level of risk faced, and the level of resilience in place for managing this risk.

Fraud Resilience Work

The Audit Services Team will provide increased advice and support to management in an effort to increase fraud resilience in their individual areas. This may include: -

- Stopping fraud from occurring (prevention)
- Identifying when a fraud has occurred (detection)

- Pursuing lawful enquiries (investigation)
- Remedy (prosecution or other sanction / recovery of funds)
- Evaluation (using the experience to amend processes to prevent future fraud),
-

On the basis of the Fraud Risk Assessment undertaken the Audit Services Manager will determine how to best plan the utilisation of their resources in 2012/13. For instance:

	Risk Assessment Finding	Proposed Response
1.	Lack of clarity over Council policy	Work with management to clarify policy
2.	Lack of fraud awareness by management and staff responsible for an area of the Council's work	Provide fraud awareness training and development
3.	Key management control is at local line management level with little central control	Undertake some data interrogation to determine level of potential error and fraud and target investigation resources on specific cases
4.	Lack of available data and/or known issues in the control environment for managing the risk of fraud	Undertake an Internal Audit

The Anti-Fraud and Corruption Policy states that the Council is committed to.

- The creation of an *anti-fraud culture*;
- *Prevention* of fraud wherever possible;
- Prompt *detection* of fraud;
- Professional *investigation* of detected fraud;
- The use of *sanctions*, including legal action against people committing fraud;
- Steps to ensure *recovery* of funds defrauded

The creation of an anti-fraud culture

A key part of fraud resilience is all staff being aware of their responsibilities to act with honesty and integrity, and this is set out in the Employees Code of Conduct, which includes the requirement for declarations of interest. The fraud policy includes a fraud statement that will be published to all staff. The Council also has a Whistleblowing Policy that is advertised with a dedicated telephone number provided.

The Bribery Act makes it incumbent on every organisation to ensure that all staff are sufficiently aware of their responsibilities under this Act. The key risk areas in relation to the Act are covered in the Employee Code, but there is potentially still work to be undertaken relating to raising awareness of the act, providing training to staff, and clarifying reporting routes.

This Strategy will be published to all staff on the Audit Services website (to be launched in April 2012). This website also sets out the work of the Internal Audit and Corporate Anti-Fraud teams, and how they can support managers and staff in dealing with fraud matters.

There is also a hotline for the Corporate Anti-Fraud team that can be used to report benefit fraud. Consideration will need to be given as to whether there is a need for further communication arrangements to be put in place to facilitate reporting fraud. In terms of advertising the Council's tough stance in dealing with fraud consideration needs to be given in relation to how this can be best achieved

General guidelines on staff behaviour and conduct are set out in the Employee Code of Conduct, which is shared with all new staff and should be a "living" document for all employees. Fraud awareness training is something that historically has not been in place, but work is ongoing in preparing an e-learning package for fraud awareness and the intention is for the Council to adopt this package and make it mandatory for all staff.

Prevention of fraud wherever possible

The Chief Finance Officer, as Section 151 Officer, has overall accountability for ensuring there are robust controls in place to minimise the risk of fraud. However, it is a responsibility of all managers to ensure there are robust procedures in place to manage the risk of fraud in their area. This means that managers need to have a sound understanding of the nature of the fraud risk in their area, and sufficient assurance that the controls that should be in place are being applied and working as intended.

Internal Audit undertake a programme of work, agreed annually by the Audit Committee, to review the control mechanisms in place to manage the Council's risks and thereby help the Council achieve its stated objectives. One risk that Internal Audit have to be alive to is the risk of fraud, and review management processes to ensure the risk is effectively managed, and recommend actions management should take to strengthen the fraud resilience of the control mechanisms in place.

The Corporate Anti-Fraud team will be undertaking targeted work with management to assist in the development of robust processes to enhance fraud resilience within the Council.

Prompt detection of fraud

As part of the management processes for dealing with the risk of fraud there should be mechanisms in place to detect where a fraud has been committed

During their Audits, the Audit team might uncover a fraud by a member of staff. Should this occur then an investigation will be undertaken and Audit Services will liaise with HR. A proportion of the available audit resources for

2012/13 has been earmarked for undertaking probity reviews, which focus on the risk of fraud and irregularity.

A programme of targeted proactive fraud work, to be undertaken by the Corporate Anti-Fraud team is scheduled for 2012/13 in order to identify fraudulent transactions within high-risk areas, and to ensure there are effective protocols in place for reporting and undertaking investigations. No work will begin on this work without senior management support for the proposed activity.

Professional investigation of detected fraud

Reporting fraud mechanisms are set out in the Financial Rules, which state:

5.2 (e) Whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of the Council or any suspected irregularity in the exercise of the functions of the Council, the Chief Executive or director concerned shall forthwith notify the Chief Finance Officer who shall also be informed of the steps that the Chief Executive or director has taken/intends to take by way of investigation or other action.

AND

19.4 (a) Any occurrence, which may give rise to an insurance claim, shall be notified promptly in writing to the Chief Finance Officer.

The Constitution states that the Chief Finance Officer should be informed of all frauds needing to be investigated and there is a need for this to be re-enforced across the Council to ensure that all identified suspected fraud is reported to the Chief Finance Officer, who has overall responsibility for stewardship of Council funds and assets.

The caveat to this is where fraud is dealt with as line of business. Line of Business may relate to low level staffing issues dealt with under the informal stage of the disciplinary procedure, and external fraud dealt with by enforcement teams. Audit Services will be working with managers in key fraud risk areas to clarify protocols for handling all levels of suspected fraud, including those handled at a local level.

The lead for dealing with the Council's fraud resilience and corporate fraud lies with Audit Services. Within the team there are trained investigators with access to key data sources, experience of preparing papers for court, and with the authority to conduct interviews under caution. The Audit Services Manager works closely with the Chief Finance Officer on all fraud issues arising.

There are other specialist teams responsible for investigating fraud. In particular the HR team will undertake investigations into disciplinary matters

that may involve fraudulent behavior. Audit Services and HR are liaising to develop a protocol for working together on investigations whereby an early decision will be taken, as part of the initial investigation, as to who will lead the investigation and what involvement might be required from other specialist teams.

Any decisions relating to legal matters should also be routed via Legal Services for advice.

Internal Fraud

All employees have a responsibility for reporting suspected fraud to their direct line manager, unless the line manager is implicated in which case the reporting line is a more senior manager in the reporting chain, or the Chief Finance Officer. The Director (or assistant director) of the area determines what investigation is required and how it will be undertaken, and informs the Chief Finance Officer. In areas where the Chief Finance Officer has line management responsibility the suspected fraud and irregularities should be reported to the Chief Finance Officer and/or the Audit Services Manager

In relation to investigating Internal Frauds the key liaison is between Audit Services and HR. An initial meeting is planned between the HR team and the Audit Services team, in order to share understanding about current arrangements. Work is ongoing to agree a documented protocol between Audit Services and HR for dealing with suspected internal frauds and financial irregularities.

External Fraud

The Corporate Anti-Fraud team have significant experience in dealing with cases of benefit fraud. The outcomes of these investigations is reported at each Audit Committee.

There are frauds perpetrated against the Council by external parties which are dealt with under management's "line of business" and do not require intervention of individuals outside the reporting line. Through the fraud risk assessment exercise it has been found that there are areas where the Corporate Anti-Fraud team can assist management in some of these line of business investigations. Work is ongoing with management to define the protocol for the Corporate Anti-Fraud team to work with the relevant managers on "line of business" investigations.

The Chief Finance Officer will, in liaison with the Audit Services Manager, confirm that action being taken is appropriate, and determine any further investigation work required.

The use of sanctions including legal action

The full scale of potential sanctions for staff whose conduct is unsatisfactory are detailed in the Disciplinary Procedure.

There is also a sanction policy in place relating to benefit fraud.

There is at present a lack of documented sanction policies in relation to some non-benefit related external fraud and the Corporate Anti-Fraud team will be working with managers in high fraud risk areas to clarify these policies.

The decision as to what sanctions the Council will apply depends upon two tests that will be applied to each individual on a case-by-case basis, namely the Evidential Test and the Public Interest Test. Legal Services provide advice and support to management in relation to these decisions.

Medway Press Office are included in the Court Outcome email produced, post sentencing hearing, by the Investigation Officer in the case. On occasions the press are actually present in court & may contact Medway Council for a quote. All liaison with the Press must go through the Press office.

Recovery of funds defrauded

Managers have a responsibility to ensure that any overpayments to staff are recovered within a reasonable timeframe. Where a disciplinary case is taken to court the Council may seek a compensation order for recovering monies due.

The recovery of overpaid benefits will be actively pursued without prejudice to Sanction / Prosecution action. There are various methods of recovery available including: - sundry debtor, recharge to Council Tax liability, recovery from ongoing benefits, attachment to earnings, and civil debt recovery action.

Where external fraudulent activity has been dealt with as line of business the relevant managers should have a clear understanding of the relevant policy in place in relation to recovery. Audit Services will be reviewing these arrangements as part of the targeted proactive fraud resilience work planned in 2012/13.

Reporting of Delivery Against Strategy

The Audit Committee has been given delegated responsibility from the full Council to oversee fraud management, and as such this policy is presented to the Audit Committee, and progress on the strategy is reported annually.

The Action Plan set out below records actions due in 2012/13, and progress on these actions will be reported to Audit Committee March 2013, along with a revised action plan for 2013/14.

There is also an ongoing record of actions completed – which reflects work undertaken since the 2011 report from PKF on the Council's fraud resilience.

Actions to be taken forward with target date

1	Publish Fraud Statement	Once approved by Audit Committee will liaise with HR regarding circulating the Statement	
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	
3	Management give consideration to fraud risk being reported as part of Risk Management process	Audit Services to be raising this with management	
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	
5	Review process for ensuring Monitoring Officer and CFO 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.	
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	

ANNEX B

		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 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	
8	Increase IA 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	
9	Website presence	Website pages in draft and will be launched once fraud policy and strategy agreed by Audit Committee 29/3/12	
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	
11	Audit Services Manager to complete professional investigative practice qualification	Final modules booked for June	

ANNEX B

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	
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	
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!!!	
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	
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	
17	Declaration of Interests should be maintained reviewed annually	Audit Services will review arrangements for receiving, reviewing and retaining declarations of interest	
18	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.	

Actions To Be Taken – Area Specific

19	<u>Blue Badges</u>	<ul style="list-style-type: none"> • 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. • Identify lessons learned and determine protocol for Corporate Anti-Fraud Team working with Management and Enforcement. • Undertake follow-up of 2011/12 Internal Audit to determine/enhance fraud resilience for the management of Blue Badges
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
21	<u>Overtime</u>	<ul style="list-style-type: none"> • CAFT to review the data available and then undertake proactive investigations where there are apparent queries and anomalies. • Internal audit to continue with planned probity reviews
22	<u>Timesheet Payments</u>	<ul style="list-style-type: none"> • CAFT to review data and then undertake proactive investigations where there are apparent queries and anomalies. • Internal audit to continue with planned probity reviews
23	<u>Mileage Claims</u>	<ul style="list-style-type: none"> • CAFT to review data and then undertake proactive investigations where there are apparent queries and anomalies. • Internal audit to continue with planned probity reviews
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.
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.
26	<u>SPD</u>	<ul style="list-style-type: none"> • NFI exercise

ANNEX B

		<ul style="list-style-type: none">• Liaison with Management re fraud awareness and fraud resilience
27	<u>Social Housing</u>	<ul style="list-style-type: none">• Build on lessons learned from the initial Housing Case that the Corporate Anti-Fraud Team have recently assisted with• Work with management to raise awareness of tenancy fraud risk• Work with management and liaise with Housing Associations/Landlords regarding the Department for Communities & Local Government – Consultation document• Develop an agreed protocol for investigating Tenancy Fraud following results of consultation

.

Actions Completed - General

1.	Revise Fraud and Corruption Policy and present to Audit Committee	Audit Services Manager	03/12
2.	Include a Fraud Statement in the Fraud and Corruption Policy	Audit Services Manager	03/12
3	Ensure key fraud risk areas are aware of potential for fraud risks through Audit Services led meetings – e.g. payroll and procurement and benefits – using national statistics as appropriate to highlight issue	Initial meetings have been held with fraud risk areas identified, further meetings will be held as part of the roll out of the fraud strategy	03/12
4	Review whistleblowing policy to ensure it is clear when the policy is invoked	Revised whistleblowing Policy presented to Audit Committee for approval	03/12
5	Integrate and clarify responsibility for fraud identification and investigation within Audit Services	The roles within Audit Services for identifying and investigating fraud have been reviewed and redefined through the Internal Audit Manual and the Fraud Strategy	03/12
6	Build into the fraud investigation process a preliminary review with a clear decision point before significant resources utilised	Preliminary review undertaken for all benefit fraud referrals which results in a risk assessment Internal Audit Services processes and records now include two distinct phases – a preliminary review to determine whether there is a case to be fully investigated, and then a decision point as to whether a full investigation is required, who would be involved, and what would be the potential sanction applied	03/12
7	Fraud Risk Assessment - Outcome of review of fraud vulnerability used to inform decisions on use of limited resources	Initial fraud risk assessment has been undertaken in relation to: Council Tax – Single Person Discount	03/12

ANNEX B

		<p>Blue Badges Payroll – overtime, timesheets, mileage claims, loans Housing – Tenancy Fraud</p> <p>On the basis of the initial risk assessment work has been undertaken to determine how Audit Services resources might best be focused to address these areas</p> <p>Details of the outcome of the risk assessments and the work plan for the coming year to address these corporate fraud areas is documented in the fraud strategy and risk assessment document presented to Audit Committee</p>	
8	Process for collating information on fraud vulnerability used to inform where to focus Audit Services resources and what approach would be appropriate	Fraud Risk Assessment undertaken and used to determine audit approach for 2012/13 – the area may be subject to an Internal Audit, Fraud awareness development work, or Proactive Fraud Identification work	03/12
9	Increase IA presence in development of processes, project assurance etc to raise fraud awareness and design out fraud risk wherever possible	The audits of benefits in 2011/12 were undertaken in such a way as to inform management of key issues prior to restructuring under Better for Less. The areas will be subject to further review early in 2012/13.	03/12
10	Audit Terms of Reference	An Internal Audit Strategy has been developed which sets out the purpose and scope of Internal Audit work. Further review will be undertaken as to	03/12

ANNEX B

		whether a terms of reference or a fact sheet of Internal Audit deliverables and professional standards would best help raise the profile in the Council.	
11	Analytical information/continuous auditing should be used to help focus resources effectively	The outcome of the risk assessment undertaken has determined where such tools might best be used	03/12
12	Clarify scope of work of counter fraud team re non-benefit fraud	Determined for 2012/13 through the risk assessment and outlined in the fraud strategy	03/12
13	Identify optimum balance of IA and CF in investigating internal irregularities	The fraud strategy provides a methodology for determining the approach to fraud and therefore the best use of resources within Audit Services.	03/12
14	Minimising impact on the IA plan of probity investigations	2012/13 Internal Audit Plan has a significant proportion of time identified for undertaking probity reviews. Whilst this is mainly set aside for financial reviews in Schools, this will provide some time available for undertaking other investigations as required. Should there be any potential impact on the annual plan then the matter would be presented to Audit Committee for consideration and approval of any proposed amendment to the plan	03/12
15	Formalisation of Internal Audit follow up process including reporting to AudC and building in an escalation process	The follow up process utilised by Internal Audit has been revised and for 2012/13 a report will be provided to Audit Committee to show the audit opinion following completion of the follow up to the audit. This reporting process will assist with the escalation process with management, and help Audit Committee identify areas where they may choose to escalate issues	03/12

Diversity Impact Assessment: Screening Form

Directorate	Name of Function or Policy or Major Service Change		
Business Support Department	Fraud Resilience Strategy		
Officer responsible for assessment	Date of assessment	New or existing?	
Alison Russell, Audit Services Manager Mick Hayward, Chief Finance Officer	14 March 2012	Existing	
Defining what is being assessed			
1. Briefly describe the purpose and objectives	The Fraud Resilience Strategy sets out the Council's approach to increasing fraud resilience, and mitigating fraud vulnerability for the Council. It identifies key risk areas – based on national data – and provides a documented approach for Audit Services to work with management to develop robust procedures and fraud response arrangements		
2. Who is intended to benefit, and in what way?	The policy has been introduced to benefit the Council, employees and service users.		
3. What outcomes are wanted?	Desired outcomes: <ul style="list-style-type: none"> - Increased fraud resilience - Reduced fraud vulnerability - Raised awareness of fraud risk across the Council - Effective and efficient use of corporate anti-fraud and internal audit resources 		
4. What factors/forces could contribute/detract from the outcomes?	Contribute <ul style="list-style-type: none"> - Raising awareness to all staff of the policy and what it means; - fraud and corruption cases being dealt with promptly and appropriately; - a circulated and effective whistleblowing policy 	Detract <ul style="list-style-type: none"> - employees not understanding their responsibilities in relation to fraud and corruption; - employees not seeing evidence of the Council taking fraud and corruption seriously 	
5. Who are the main stakeholders?	The council, employees and service users.		
6. Who implements this and who is responsible?	The lead for this strategy is Alison Russell, Audit Services Manager, reporting on delivery to Mick Hayward, CFO and the Audit Committee.		

Assessing impact		
7. Are there concerns that there <u>could</u> be a differential impact due to <i>racial groups</i> ?	NO	Investigations of employees are handled under the Council's HR policies. Where there is potential criminal investigations required of employees then the Internal Auditors may undertake the work – working under professional standards – or the Corporate Anti-Fraud Team will investigate working to professional standards and in accordance with PACE
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	
8. Are there concerns that there <u>could</u> be a differential impact due to <i>disability</i> ?	NO	See above
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	
9. Are there concerns that there <u>could</u> be a differential impact due to <i>gender</i> ?	NO	See above
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	
10. Are there concerns there <u>could</u> be a differential impact due to <i>sexual orientation</i> ?	NO	See above
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	
11. Are there concerns there <u>could</u> be a have a differential impact due to <i>religion or belief</i> ?		See above
	NO	
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	
12. Are there concerns there <u>could</u> be a differential impact due to people's <i>age</i> ?	NO	See above
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review,	

	input of Legal Services, and formally signed off	
13. Are there concerns that there <u>could</u> be a differential impact due to <i>being trans-gendered or transsexual</i> ?	NO	See above
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	
14. Are there any <i>other</i> groups that would find it difficult to access/make use of the function (e.g. young parents, commuters, people with caring responsibilities or dependants, young carers, or people living in rural areas)?	NO	See above
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	
15. Are there concerns there <u>could</u> have a differential impact due to <i>multiple discriminations</i> (e.g. disability <u>and</u> age)?	NO	See above
What evidence exists for this?	Additional to above - Audit Services documented processes and formal review processes. Decisions regarding criminal sanction are subject to formal review, input of Legal Services, and formally signed off	

Conclusions & recommendation		
16. Could the differential impacts identified in questions 7-15 amount to there being the potential for adverse impact?	YES	N/A
	NO	
17. Can the adverse impact be justified on the grounds of promoting equality of opportunity for one group? Or another reason?	YES	N/A
	NO	
Recommendation to proceed to a full impact assessment?		
NO	This strategy complies with the requirements of the legislation and there is evidence to show this is the case.	
NO, BUT ...	What is required to ensure this complies with the requirements of the legislation? (see DIA Guidance Notes)?	Employees must be mindful of their responsibilities under the Dignity at Work (Bullying and Harassment) Policy and the implications of discriminating against colleagues, service users or others. This policy and other employment policies are promoted periodically and are available at all times on the councils intranet.

YES	Give details of key person responsible and target date for carrying out full impact assessment (see DIA Guidance Notes)	N/A
-----	---	-----

Action plan to make Minor modifications		
Outcome	Actions (with date of completion)	Officer responsible

Planning ahead: Reminders for the next review		
Date of next review	On-going	
Areas to check at next review (e.g. new census information, new legislation due)	Check changes in legislation	
Is there <i>another</i> group (e.g. new communities) that is relevant and ought to be considered next time?		
Signed (completing officer/service manager)	Date	
A Russell	14/3/12	
Signed (service manager/Assistant Director)	Date	