

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**22 September 2016**

**Report of the Internal Audit Consortium**

**Fighting Fraud and Corruption Locally**

**Purpose of the Report**

- To make Members aware of “The local government counter fraud and corruption strategy 2016 – 2019”.
- To report an assessment of North East Derbyshire District Council’s position against the Fighting Fraud and Corruption Locally checklist 2016 - 2019.

**1 Report Details**

**Background**

- 1.1 Fighting fraud and corruption locally is a strategy for English local authorities’ that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. The full strategy and the associated Companion document can be viewed by the following link :-  
  
<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>
- 1.2 The strategy states that fraudsters cost the local tax payer millions of pounds each year and places the emphasis on council leaders, chief executive and finance directors to provide the local leadership to take action to protect the public purse. Council’s must ensure that they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation.

## Principles of fighting fraud locally

- 1.3 The key principles developed in fighting fraud locally are:-
- **Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.
  - **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
  - **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.
- 1.4 Local authorities can ensure their counter fraud response is comprehensive and effective by considering their performance against each of six themes:-
- Culture – creating a culture in which beating fraud and corruption is part of daily business
  - Capability – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
  - Capacity – deploying the right level of resources to deal with the level of fraud risk
  - Competence – having the right skills and standards
  - Communication – raising awareness, deterring fraudsters, sharing information, celebrating successes
  - Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.
- 1.5 The strategy recommends that the starting point for each local authority is to perform its own risk assessment and fraud resilience check.

## Risk Assessment and fraud resilience check

- 1.6 The 2016 – 19 Fighting Fraud and Corruption checklist has been completed by the internal Audit Consortium Manager and the Director of Operations in conjunction with other relevant officers (Appendix 1).
- 1.7 When completing the checklist and identifying potential areas for further action, responses have been kept proportionate to the perceived risk within North East Derbyshire District Council and to the resources available. An action plan has been developed to address any issues arising (Appendix 2)

- 1.8 The completion of the checklist shows that the Council can demonstrate that it has a good anti- fraud culture and that there are appropriate and proportionate measures in place to prevent and detect fraud. The implementation of the action plan will further strengthen the anti-fraud culture.

## **CIPFA Fraud and Corruption Tracker Summary Report 2016**

- 1.9 Also attached for information in the link below is CIPFA's Fraud and Corruption Tracker Summary Report 2016 that is an annual survey of the fraud and corruption detected in local authorities across the UK.

<http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker>

## **2 Conclusions and Reasons for Recommendation**

- 2.1 To inform Members of the local government counter fraud and corruption strategy 2016 – 2019 and to provide an assessment of NEDDC's counter fraud and corruption culture and response.

## **3 Consultation and Equality Impact**

- 3.1 None.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 Not applicable.

## **5 Implications**

### **5.1 Finance and Risk Implications**

- 5.1.1 The completion of the checklist is an aid to measure the Council's counter fraud and corruption culture and response. The review of governance arrangements in relation to fraud and the implementation of the action plan at appendix 2 will contribute towards the reduction of the risk of fraud and corruption occurring.

### **5.2 Legal Implications including Data Protection**

- 5.2.1 None

### **5.3 Human Resources Implications**

- 5.3.1 None

## 6 Recommendations

- 6.1 That the local government counter fraud and corruption strategy be noted.
- 6.2 That subject to any comments members may wish to make, the position shown in the 2016 – 2019 Fighting Fraud and Corruption checklist and corresponding action plan be noted.

## 7 Decision Information

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	N/A
<b>Links to Corporate Plan priorities or Policy Framework</b>	The report is linked to NEDDC's aims and objectives to provide customers with an excellent service.

## 8 Document Information

Appendix No	Title
1 2	2016 – 2019 Fighting Fraud and Corruption checklist Fraud Checklist Action Plan
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
Jenny Williams Internal Audit Consortium Manager	01246 217547

## Fighting Fraud and Corruption Locally 2016 – 2019 Checklist

A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible outcomes. It should aim to create a transparent process and report the results to the corporate management team and those charged with governance.

**You are encouraged to use this checklist to measure your counter fraud and corruption culture and response.**

	<b>Issue</b>	<b>Arrangements Fit for Purpose/Working</b>		<b><u>COMMENTS</u></b>
1.	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.	Y		A fraud risk register has been developed by internal audit and was reported to Members in June 2016 as an appendix to the annual audit plan for 2016/17. The Internal Audit Manager reports quarterly to the Audit and Corporate Governance Scrutiny Committee to confirm that no fraud has been detected. Internal audit regularly tests the operation of internal controls in key areas.
2.	The local authority has undertaken an assessment against the risks in Protecting the Public Purse: Fighting Fraud Against Local Government (2014) and has also undertaken horizon scanning of future potential fraud and corruption risks.	Y		The Audit and Corporate Governance Scrutiny Committee received a report in February 2014 that was an assessment against the risks in Protecting the Public Purse 2013. KPMG presented the findings of the 2014 report to Members in December 2014. The fraud risk register will be kept up to date with emerging fraud risks.
3.	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against Fighting Fraud and Corruption Locally (FFCL) 2016 and this checklist.	Y		This report completes the checklist
4.	There is a counter fraud and corruption strategy applying to all aspects of the local	Y		The Anti- fraud Bribery and Corruption policy was presented to the Audit, Corporate

	authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.			Governance and Scrutiny Committee in October 2015 and approved by Cabinet in January 2016. Training / Awareness sessions have been provided to both Officers and Elected Members.
5.	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Y		Internal control arrangements throughout the council are assessed by internal audit. There is employee and Members Codes of Conduct in place, registers of gifts and hospitality and a requirement to declare any business interests.  The Council's constitution sets out how it operates, how decisions are made and the procedures which are followed to ensure that decision making is transparent.
6.	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.		Part	The risk of fraud and corruption is within finance's operational risk register, while a failure in Governance arrangements is one of the identified Strategic Risks facing the Council. Although risks of fraud and corruption would clearly constitute one element of a failure of Governance arrangements, fraud risks are not explicitly mentioned in the Strategic Risk Register. The Audit and Corporate Governance Scrutiny Committee considered the fraud risk register in June 2016.
7.	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Y		Counter fraud staff have moved over to the DWP however managers including the Internal Audit Consortium Manager have the opportunity to comment on draft policies
8.	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Y		The investigation of benefit fraud has moved to the DWP. No other fraud identified in recent years.
9.	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism	Y		Management are responsible for ensuring that there are adequate systems in place to prevent fraud and corruption.

	for ensuring that this is effective and is reported to committee.			<p>Internal audit assess the internal controls in place and the operation of these controls. Internal audit report quarterly to state if any fraud and corruption has been identified in the areas reviewed.</p> <p>Against a background in which benefit fraud work has moved to the DWP the Council is participating in a Derbyshire wide initiative in respect of the Revenues and Benefit service which is designed to reduce the incidence of fraud.</p>
10.	<p>The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:</p> <ul style="list-style-type: none"> <li>– codes of conduct including behaviour for counter fraud, anti-bribery and corruption</li> <li>– register of interests</li> <li>– register of gifts and hospitality.</li> </ul>	Y		<p>Codes of conduct are included within the Constitution.</p> <p>Officers are required to declare any interests.</p> <p>There is an Anti-Fraud, Bribery and Corruption Strategy</p> <p>Officers are required to declare and record any offers of gifts and hospitality and if they were accepted or not.</p>
11.	The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2016 to prevent potentially dishonest employees from being appointed.	Y		<p>Standard recruitment procedures are in place to vet staff prior to them being employed including:-</p> <ul style="list-style-type: none"> <li>• Taking up 2 references</li> <li>• DBS checks where appropriate</li> <li>• Verification of qualifications</li> <li>• Right to work checks</li> </ul>
12.	Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.	Y		<p>Staff were reminded in December 2015 of the need to declare any offers of gifts and hospitality.</p> <p>Internal Audit periodically reviews gifts and hospitality procedures</p>
13.	There is a programme of work to ensure a strong counter fraud culture across all	Y		The Council does not have any counter fraud experts but internal audit cover the whole of

	departments and delivery agents led by counter fraud experts.			<p>the organisation and this is seen as proportionate to the size of the organisation.</p> <p>A programme of training for managers which included fraud awareness was delivered in the Autumn of 2015.</p>
14.	There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	Y		<p>There is a whistle blowing policy in place that was last reviewed and updated in December 2013. All whistle blower complaints are treated seriously and investigated in line with policy. The Monitoring Officer is responsible for ensuring that this takes place.</p> <p>The operation of the Council's Whistleblowing Policy was promoted to staff as part of the training events undertaken in the autumn of 2015.</p>
15.	Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.	Y		The policy applies to Council employees and other workers including freelance staff, trainers, volunteers, consultants and contractors, employees of another LA with whom the council has joint working arrangements and Members
16.	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	Y		Small district councils have a lower risk of fraud and corruption. There are no counter fraud specialists but the internal audit plan covers all of the Council's activities. In addition there is a good awareness amongst staff of the importance of preventing, detecting and reporting fraud.
17.	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.		Part	There is not a specific fraud plan but the annual audit plan covers all of the Council's activities based on a risk assessment. This is considered proportionate to the risk
18.	Statistics are kept and reported by the fraud team which cover all areas of	Y		Housing Benefit fraud investigation has gone to the DWP.



	activity and outcomes.			The Council actively participates in the NFI work. The Audit Commission's annual fraud and corruption survey used to be completed before their abolition. Now the TEICCAFF annual survey is completed.
19.	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	Y		NEDDC does not have specific fraud officers however Internal audit have those rights of access if required.
20.	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.	Y		Benefits cases are now referred to the DWP. Other instances of fraud and corruption would be reported as appropriate.
21.	All allegations of fraud and corruption are risk assessed.	Y		Any reports of fraud and corruption allegations are thoroughly investigated and the police consulted at an early stage where appropriate.
22.	The fraud and corruption response plan covers all areas of counter fraud work: – prevention – detection – investigation – sanctions – redress		Part	There is no specific fraud and corruption response plan. Internal audit would investigate appropriately.
23.	The fraud response plan is linked to the audit plan and is communicated to senior management and members.		Part	There is no specific fraud response plan. Internal Audits work is reported to Members. Results of the NFI data matching exercise are reported to Members via an internal audit report
24.	Asset recovery and civil recovery is considered in all cases.	Y		This would be considered if the situation arose
25.	There is a zero tolerance approach to fraud and corruption which is always reported to committee.	Y		This is specified in the Anti-Fraud, Bribery and Corruption policy. Any identified incidences would be reported to Committee.
26.	There is a programme of proactive counter fraud work which covers risks identified in assessment.		Part	Audit Commission's fraud and corruption modules are completed in respect of the main financial system audits.

				The internal audit plan is risk based which takes in to account the risk of fraud
27.	The fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.		Part	There is no dedicated fraud team, however, the Council ensures any concerns are reported to the appropriate agencies. Internal audit is a member of the Midlands and Nottinghamshire audit groups where investigations and fraud issues are discussed.
28.	The local authority shares data across its own departments and between other enforcement agencies.	Y		The Council actively participates in the NFI work and will notify other agencies of concerns where appropriate.
29.	Prevention measures and projects are undertaken using data analytics where possible.		Part	The results of completed fraud surveys are used to identify emerging fraud areas and to verify if appropriate internal controls are in place  Participation in NFI
30.	The local authority actively takes part in the National Fraud Initiative (NFI) and promptly takes action arising from it.	Y		NFI results are investigated and acted upon. Internal audit verify that this takes place.
31.	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.		N	The Council does not have any professionally trained and accredited counter fraud staff.  If fraud and corruption occurred that Internal Audit could not investigate then the appropriate resource would be bought in.
32.	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.		Part	The Council does not have a counter fraud team  The internal audit team has knowledge of all the Council's operations
33.	The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for:		No	The council does not have a counter fraud team  The internal audit consortium has used DCC IA in the past in

	<ul style="list-style-type: none"> <li>– surveillance</li> <li>– computer forensics</li> <li>– asset recovery</li> <li>– financial investigations</li> </ul>			<p>respect of computer forensics specialist knowledge.</p> <p>Specialist knowledge would be bought in where appropriate</p>
34.	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.	Y		<p>This would occur if the situation arose</p>

## Appendix 2

### Fraud Checklist Action Plan

Identified Weakness	Action	Officer	Implementation Date
Fraud risks are not widely considered as part of the risk management process	The fraud risk register developed by internal audit should be considered by the senior managers (at quarterly directorate meetings)	Director of Operations	December 2016