



**Audit and Risk Management Committee
Monday, 11 March 2019**

REPORT TITLE:	INTERNAL AUDIT COUNTER FRAUD UPDATE
REPORT OF:	CHIEF INTERNAL AUDITOR

REPORT SUMMARY

The purpose of this report is to provide Members of the Committee with an update on the activities of the Counter-Fraud Team within Internal Audit. The report covers the 2018/19 year to date.

Although the Counter-Fraud Team works closely and collaboratively with the Fraud and Compliance Team within Revenues and Benefits, this report does not include the extensive specialist activities of their work which is reported to Members separately.

RECOMMENDATION

That the report is noted and that Members continue to support the work of the team.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 To provide Members with assurance that the Council is taking appropriate action to address the risk of fraud and that suspected frauds are investigated and appropriate actions taken to prosecute perpetrators, recover losses and improve financial controls.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other options considered.

3.0 BACKGROUND AND AUDIT OUPUT

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre (CFC) lead on work to counter fraud and corruption across public services and in conjunction with the National Fraud Authority currently estimate that fraud and corruption costs the public sector over £20.5 billion annually.
- 3.2 The main areas of fraud within the public sector as highlighted by the Counter Fraud Centre are:
- Business Rates;
 - Procurement;
 - Social Care and Welfare Assistance;
 - Council Tax;
 - Disabled Parking (Blue Badge);
 - Debt;
 - Insurance Claims;
 - Economic and voluntary sector (grant fraud);
 - Recruitment Fraud;
 - Insider Fraud – payroll / expenses/ abuse of works time or position.
- 3.3 The high risk fraud areas detailed have been incorporated into the annual Internal Audit planning process and audit work has been identified that will be undertaken during 2019/20.

COUNTER-FRAUD TEAM

3.4 The remit of the Counter Fraud Team is to:

- Prepare relevant best practice policies and procedures,
- Facilitate changes to the culture of the organisation by raising awareness amongst the workforce to fraud and corruption through targeted training,
- Proactively manage the risk of fraud to the Council through targeted audits in high risk areas,
- Provide both a proactive and a reactive response to tackling fraud across the authority.

3.5 Also included within this remit is the investigation of serious financial frauds perpetrated against the Council, as well as the teams either direct or supporting involvement with disciplinary and grievance cases, which can often be linked to criminal offences and their subsequent reporting to senior management.

ACTIVITIES UNDERTAKEN

Engagement with Fraud Groups

3.6 The Counter Fraud Team continues to chair and co-ordinate the activities of the Mersey Region Fraud Group (MRFG) which consists of a number of neighbouring authorities and partner organisations. The group is committed to developing a regional approach to counter fraud, including the production of generic policies and procedures and undertaking collaborative working in targeted areas, such as data matching and other counter fraud exercises.

3.7 The Team also contributes to the North West Chief Audit Executives Counter-Fraud Sub Group, who develop practical solutions to mitigate current and emerging fraud risks and respond to sector related change and challenges.

National Fraud Initiative

3.8 The Team oversees and co-ordinates the Council's involvement in the National Fraud Initiative (NFI) which the Council is required by law to participate in. This is a national exercise using data matching audit techniques. Council-wide data sets covering a wide range of financial and non-financial applications such as Housing Benefits, Council Tax, Electoral Registration, Pensions, Payroll, Creditors, Blue Badges, Residential Care Homes and Personal Budgets are uploaded to the Cabinet Office website, which are then matched with data within and between participating bodies to identify potential frauds, overpayments and errors.

3.9 On receipt of the results the Council then has responsibility to follow up and investigate the matches. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle. Data sets were submitted in October 2018 for the 2018/19 NFI biennial data matching exercise and results of data matches were received at the end of January 2019.

- 3.10 The NFI exercise consistently generates significant savings for the Council, arising largely from payments recovered or stopped. Traditionally the exercise generates in the region of £200,000 which the Council is able to recover, the precise figures for the current exercise will not be known until the returned matches have been investigated later this year.
- 3.11 The Team has worked with departments to develop and implement Action Plans taking into account lessons learnt from this exercise. The aim being to identify common themes and recurring types of frauds, overpayments and errors, so that departments can identify what changes can be made and measures taken to reduce their incidence.

Self-Assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

- 3.12 To support the work of local authorities, the CFC publishes a Code of Practice on Managing the Risk of Fraud and Corruption. Although the Code is not currently mandatory, it represents best practice and compliance with the Principles set out in the Code enable the Council to demonstrate effective financial stewardship of public monies.
- 3.13 The Code has established a common set of principles for managing the risk of fraud and corruption. The principles provide a set of standards which can be applied in all public bodies, regardless of sector or size. They emphasise the importance of managing the risks of fraud and corruption in order to secure good governance and financial stewardship.
- 3.14 The Council's compliance with the Code is assessed annually following its publication in 2014 and subsequent update, including an on-line assessment tool in January 2017.
- 3.15 The assessment tool and guidance contains 68 performance statements which are used to measure the Council's effectiveness against the five key principles of managing the risks of fraud and corruption, which are to:
- Acknowledge the responsibility for countering fraud and corruption;
 - Identify the fraud and corruption risks;
 - Develop an appropriate counter fraud and corruption strategy;
 - Provide resources to implement the strategy;
 - Take action in response to fraud and corruption.
- 3.16 The Council has reached a good level of performance against the Code by putting effective arrangements in place across the Council and is taking positive action to manage its risks.

Training, Awareness and Reporting

- 3.17 During 2018/19 the officers of the Counter Fraud Team attended appropriate and relevant training and awareness sessions delivered outside of the authority by organisations such as CIPFA and CMIIA. In addition to these courses they have also

attended localised and national networking meetings of their peers. These provide important opportunities for the officers to update and refresh their knowledge in the counter fraud arena.

- 3.18 In November 2018, the team coordinated a week long Staff and Public Fraud Awareness Campaign, in collaboration with the Fraud and Compliance Team (Benefits and Revenues), Trading Standards, Insurance & Risk, HR, Publicity and other neighbouring authorities. The aim of the week was to heighten the awareness of the problem and scale of fraud in the public sector, to direct all employees to complete the Anti-Fraud and Corruption e-learning course and to encourage them to report any suspicions of fraud that they may have. The campaign involved posters, e-alerts and daily intranet bulletins and was supported by corporate messages from the CEO and Members.
- 3.19 Since the campaign the team has seen both an increase in the take up of the Anti-Fraud and Corruption e-learning course and the number of investigations that they were asked to both undertake or to provide advice and support with. This clearly demonstrated that the work to raise the profile of the team, and the support that they can provide has been successful, in that more requests for assistance are now being received.
- 3.20 The Council subscribes to the National Anti-Fraud Network (NAFN), which promotes the sharing of information between Authorities and publishes regular bulletins on fraud cases and attempted scams, which are distributed to relevant staff and appropriate measures are taken to address the identified risks.
- 3.21 During 2018/19 and the year to date the development and recognition of the Counter-Fraud Team has continued with significant progress, which has resulted in 58 non-benefit related reports and referrals being made to the team which represents an increase of some 40% of the cases reported/referred from the previous year. The type of issues covered a broad spectrum of the Council's activities.
- 3.22 In addition, the Team provides advice to departmental officers investigating suspected frauds and irregularities, in cases where these are investigated within the department. The last year has seen an increase in the number of referrals from departments as the profile of the Team continues to rise and become more widely known to management.
- 3.23 The Team maintains a fraud referral register which is used to collate details of all reported fraudulent activity across the Council, whether investigated by the Counter-Fraud Team or by the relevant department. The information contained within the register is then used to identify potential weakness and areas that may be susceptible to increased attempts of fraud and as such where Counter-Fraud resources need to be directed.

Audits and Investigations

- 3.24 The Team has conducted 19 audits and investigations across a wide range of topics and, as identified in the Strategic Internal Audit Plan presented to this Committee in March 2018, and subsequently reported upon at corresponding meetings. These assignments whilst predominately planned also include pieces of work in response to requests from Chief Officers or Members or as a result of any allegations made, including whistleblowing.
- 3.25 Outcomes from individual audits and investigations are reported to Members through the bi-monthly reports, quarterly Internal Audit update reports and the Chief Internal Auditors Annual Report.
- 3.26 The Team updated the Council's Counter-Fraud and Corruption Strategy, which clearly identifies the Council's commitment to an effective Counter-Fraud and Corruption approach as part of its overall Corporate Governance arrangements. The Strategy outlines the principles that the Council is committed to in preventing and reporting fraud and corruption.
- 3.27 The Team reviewed and amended the following policy documents, which form an important part of the Counter-Fraud and Corruption Strategy by setting the tone, culture and expectations of the Council, as part of the corporate framework:
- Anti-Fraud and Corruption Policy - this outlines the Council's attitude to and position on fraud and corruption and sets out responsibilities for its prevention and detection.
 - Fraud Response Plan – this details the Council's procedures for responding to any incidents of suspected fraud or corruption.
 - Anti-Bribery Policy - this sets out the actions required by Wirral Council officers to ensure compliance with the Bribery Act 2010 and details the sanctions which are applicable to individuals and to the Council, in the event of a prosecution under the Act.
- 3.28 The Counter-Fraud and Corruption Strategy and Policies have been promoted across the Authority and are listed as documents that employees are required to read on an annual basis, as part of one to one or performance appraisal meetings.

CONCLUSION

- 3.29 Participation in counter-fraud activities and compliance with best practice helps to strengthen the Council's approach and management of these risks. Working with partners, as demonstrated by the NFI, successfully illustrates the benefit of partnership working and co-operation between all involved. The national sharing of data allows a number of organisations to effectively identify areas of potential fraud or error, reducing the future risk of such fraud or errors going undetected.
- 3.30 Counter-fraud activity and the investigation of any issues ensures that where appropriate, any monies lost as a result of identified frauds or errors are recovered, and any weaknesses in procedures are addressed, to improve the internal control

environment and help prevent fraud or error. Work will continue in 2019/20 to ensure that the Council promotes an environment where fraud and corruption are not tolerated.

4.0 FINANCIAL IMPLICATIONS

4.1 Delivery of the counter-fraud work will be met from existing Internal Audit resources.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS

6.1 There are none arising from this report.

7.0 RELEVANT RISKS

7.1 That fraud is not properly addressed, investigated and appropriate actions are not taken to prosecute perpetrators, recover losses and improve financial controls.

7.2 Given the budgetary constraints the council has been faced with and the reduced staffing levels it will always be a risk that previously robust procedures may not be followed and therefore providing the opportunity for fraud to occur.

8.0 ENGAGEMENT/CONSULTATION

8.1 None

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising from this report.

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APPENDICES

None

REFERENCE MATERIAL

Internal Audit Plan 2018/19 and 2019/20

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	Routine report presented annually to this Committee.