Suffolk County Council

Committee:	Audit Committee
Meeting Date:	30 January 2014
Lead Councillor/s:	Councillor Michael Bond
Local Councillor/s:	All
Director:	Geoff Dobson, Head of Strategic Finance
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Anti Fraud and Corruption Arrangements

Brief summary of report

1. This annual report explains the arrangements in place within the Council to develop a culture where fraud and corruption is not acceptable. The report will also give details of proactive work undertaken by Audit Services to detect fraud and corruption, should it be occurring.

Action recommended

2. The Committee is requested to raise any points of clarification required and then form a conclusion on how the anti-fraud and corruption arrangements, including proactive work and initiatives, are working within the Council.

Reason for recommendation

3. The information has been assembled to allow the Committee to be able to form a view that the arrangements in place for fraud and corruption are such as to minimise the risk to service delivery.

Alternative options

4. None

Who will be affected by this decision?

5. All stakeholders

Main body of report

6. Fraud is defined by the Audit Commission as "the intentional distortion of financial statements or other records by persons internal or external to the county council which is carried out to conceal the misappropriation of assets or otherwise for gain".

7. Whilst this definition does not include misappropriation or petty theft without the distortion of financial statements or other records, fraud should be taken to cover all financial irregularities and criminal acts which may affect the Council, including: theft of property; false accounting; obtaining by deception; computer abuse and crime.

8. Corruption is defined by the Audit Commission as "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person".

9. The Council's Constitution includes an Anti-fraud and Corruption Strategy in part 4, section 2.

10. The Council will not tolerate fraud and corruption in the administration of its responsibilities.

11. The Council's expectation of propriety and accountability is that councillors and staff at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices.

12. The Council also expects that individuals and organisations (e.g. suppliers, contractors, partners and service providers) with whom it comes into contact will act towards the Council with integrity and without thought or actions involving fraud and corruption.

13. Fraud is a problem which undermines the stability and financial health of organisations across the economy. It is not a victimless crime, but one which, for example, piles additional costs on everybody as consumers, and denies the quality of public services which taxpayers pay for.

14. Nationally, fraud is increasing. Over half of public sector organisations experienced economic crime in the last 12 months. Staff reductions have resulted in fewer resources being deployed on internal controls and the risk of job loss is a primary incentive to commit fraud. These pressures create a series of internal and external fraud risks. Common internal risks include expenses fraud, target manipulation, payroll fraud, supplier fraud, funds diversion, data theft and asset theft. External risks include supplier over-pricing, double invoicing, procurement fixing, contractual irregularities and identity theft.

15. Officers may take advantage of lax internal controls to perpetrate fraud and it is important that the boundaries set within financial and contract procedure rules and delegated powers are monitored and adhered to. It is clear that the failure to adhere to these governance arrangements and regulatory requirements could lead to a lack of value for money. Furthermore, employees and members may seek to abuse their position for personal gain.

16. Another area of fraud that the public sector may be subject to is organised attacks, which often rely upon poor or lax application of internal controls. Examples of such attacks include:

a) alteration of cheque payees, which may be identified when the correct payee contacts the organisation to query non-payment;

b) fraudulent notifications requesting a change in direct debit mandates for existing suppliers; and

c) contact from companies for payment of an invoice relating to goods not received or ordered / unsolicited invoices.

(Committee members should note that the Council has been victim of such instances of fraudulent activity in the past (including alteration of cheque payee during 2013). In some instances, the Council's own controls put in place have identified the attempted fraud and action has been taken accordingly.)

17. As a consequence, there is a need to periodically review the Council's approach to fraud.

The Risk of Fraud

18. A corporate fraud risk is included on the Authority's Risk Register; "There is a risk that the Council does not have, or does not implement, the appropriate controls to prevent, detect, deter or respond to fraud with a result of financial loss, criticism from the External Auditor, and damage to reputation".

19. In practice, the Council's mitigating controls include clear policies and procedures available to all staff; specialised / qualified staff to identify and investigate potential areas of fraud; compliance with the National Fraud Initiative; and a sound internal control environment as demonstrated by internal and external audit opinions and the most recently published Annual Governance Statement.

20. However, whilst there are mitigating controls in place to manage the risk of fraud, this can never be expunged completely. The Council's Financial Regulations give responsibility for the development and maintenance of an anti-fraud and anti-corruption policy to the Head of Strategic Finance. Directors are responsible for ensuring that this policy is implemented within their Directorates.

CIPFA Red Book 2 – Managing the Risk of Fraud

21. The Better Governance Forum and Red Book bring together best practice with regards to combating fraud and corruption. Whilst this is aimed more at housing benefit authorities, the best practice provides a useful self-assessment for the Council.

22. The first CIPFA Red Book described what action is needed for an organisation to be effective in countering fraud and corruption. The revised version, Red Book 2, expands it by providing further definitions, explanations and examples of the attributes required, and is acknowledged as good practice. It is recommended by organisations such as the Public Risk Management Association and the Institute of Internal Auditors.

23. There are 56 elements in Red Book 2 seeking compliance. These cover:-

a) Adopting the Right Strategy;

b) Accurately identifying the risks;

c) Creating and maintaining a strong structure;

d) Taking Action to tackle the problem; and

e) Defining Success.

24. An assessment of how the Council compares to the requirements of Red Book 2 is undertaken by Audit Services each year.

25. Overall, the most recent assessment has shown that the Council is complying with the requirements of the Red Book 2.

Awareness

26. Audit Services has developed fraud awareness across the Council. For example:-

a) A new fraud-related newsletter ("Fraud – Do the Right Thing – Spot It, Stop it") has been developed and the first edition was published on the Council's intranet (COLIN) and external web-site in December (see Appendix A). This newsletter aims to provide an update on, and raise the awareness of, fraud in and around the workplace. The first newsletter reminded staff of the policies and procedures the Council has in place to 'protect the public purse', as well as highlighting emerging fraud risk areas and providing examples of where fraud has occurred both within the Council and in other local authorities.

b) Various members of Audit Services attend different Service team meetings to discuss the work of Audit Services and highlight the controls required to deter and prevent fraud.

c) A whistleblowing poster, designed by Audit Services, is now displayed throughout Council premises. This is aimed at raising awareness of the whistleblowing procedure and encouraging concerns to be raised, and has been successful.

Protecting the Public Purse

27. The Audit Commission 2013 report titled 'Protecting the Public Purse – Fighting Fraud against Local Government', issued in November 2013, considers the key fraud risks and pressures facing councils and related bodies and identifies good practice. This includes a fraud checklist which has been completed and is shown as Appendix B. The results show that assurance can be taken that the Council has governance and counter-fraud arrangements in place that are fit for purpose and working as intended.

28. Recent audit work carried out during 2013/14 has recommended potential improvements in the systems in place in respect of personal budgets paid by direct payment for adult social care (see question 25 on the fraud checklist). The Direct Payments Team does not have a fraud focus in its day-to-day operations. Current arrangements are time consuming, manually maintained, and cannot provide a clear audit trail without extensive reconciliation activity. As the ambition nationally and locally is

that the number of direct payments increases, these arrangements require strengthening. Adult and Community Services (ACS) are already planning a full system review of the direct payment system. Audit Services will work with the Direct Payments Team to ensure newly designed processes incorporate proper safeguarding proportionate to risk and in line with recommended good practice. A working group has been set-up by ACS (including a representative from Audit Services).

Policies and Procedures

29. The Council is committed to ensuring that any opportunity for fraud and corruption is minimised. It adopts a culture in which all of its employees can help the organisation maintain a proactive attitude towards preventing fraud and corruption by reporting corrupt, dishonest or unethical behaviour. This is supported by an anti-fraud and corruption policy, an anti-money laundering policy, a whistleblowing policy, an anti-bribery policy and other guidance available to all through Council web facilities.

30. During 2013, the Interim Head of Audit Services carried out a review of the Council's policies and procedures for preventing fraud and corruption and has deemed them to be fit for purpose, with only minor amendments being necessary.

National Fraud Initiative (NFI)

31. The Audit Commission conducts the National Fraud Initiative (NFI) under statutory powers given to it under the Serious Crime Act 2007. All mandatory participants, including the Council, must provide data for matching with other local government organisations.

32. Data matching in the NFI involves comparing sets of data, such as the payroll records of a body, against other records held by the same or another body. This allows potentially fraudulent claims and payments to be identified.

33. In the NFI, participating bodies receive a report of matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over / under payments and other errors, to take remedial action and update their records accordingly. Failure to provide data without reasonable reason is a criminal offence under section 32B of the Audit Commission Act 1998.

34. The NFI exercise takes place every two years. It also provides a good indication of whether Council systems are operating effectively.

35. The latest data extraction was completed in October 2012. This included payroll, pensions, creditors, payments to private residential care homes, blue badges, concessionary travel passes and insurance claimants. The outcome from this NFI exercise was received in February 2013. This identified a number of matches for investigation which have been assessed on a risk basis, and investigative work has been undertaken by Audit Services.

36. Findings indicate robustness in the data held, and supporting controls, in respect of payroll and insurance.

37. Sixteen instances were identified where an occupational pensioner had died but a pension had still been paid. Total identified overpayments were £16k. Of these overpayments, eight were for under £200, an additional seven were for under £1.3k, and one was for approximately £8.4k. To date, the Pensions Team has recovered £3.2k.

38. The NFI data match of private residential care homes to Benefits Agency deceased persons data, identified cases where a customer had died, but the Council continued to make payments. This has resulted in the recovery of £41k in overpayments from 29 individual cases.

39. Creditor matches were based around identifying possible duplicates within the ORACLE system. Following an examination of a sample of possible matches, it was concluded that the information held and payments made were valid. However, it should be noted that the data matching exercise is at a basic level, where only direct matches are picked up; e.g. a duplicate payment to a supplier could go undetected if part of a larger payment, if the amount paid is slightly different, or if the invoice reference number is different. Audit Services will continue to review this area. It should also be noted that the Transactions Team run regular reports from Oracle to monitor potential duplicate payments and remedial action is taken as necessary.

40. Individuals who have Blue Badge Scheme permits have been matched to the Department of Work and Pensions deceased records. These matches aim to identify cases where a permit holder has died, but the Council may not have been notified. Whilst the Blue Badges Team continue to work on NFI matches, they have already confirmed that there were matches where the badge had already been cancelled or the customer has since been recorded as deceased. There are also a low number of matches under investigation where people may have committed fraud by obtaining more than one blue badge (usually from more than one Authority). Councillors should note that any loss in parking fees has a minimal impact on the County Council.

41. This year a pilot scheme of personal budgets (direct payments) has been undertaken by NFI; the Council is part of this pilot. Two matches found in relation to the death of a customer have resulted in overpayments totalling £4,249.56. On both occasions the overpayment has been repaid. There is currently further work being undertaken in this area (see also paragraph 28).

42. The Audit Commission's data matching powers, and therefore the National Fraud Initiative (NFI), are to transfer to the Cabinet Office, once the Audit Commission ceases to exist in 2015.

Internal Audit

43. Fraud and corruption risks are identified as part of the annual planning process and contribute to the overall formation of audit coverage.

44. Whilst it is not a primary role of an internal audit function to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal audit can do additional work, but it must not be prejudicial to this primary role; activities carried out would include:

a) investigating the causes of fraud;

b) reviewing fraud prevention controls and detection processes put in place by management;

c) making recommendations to improve those processes;

d) advising on what, if any, legal advice should be sought if a criminal investigation is to proceed;

e) bringing in any specialist knowledge and skills to assist in fraud investigations, or leading investigations where appropriate and requested by management;

f) responding to whistleblowers;

g) considering fraud risk in every audit;

h) having sufficient knowledge to identify the indicators of fraud; and

i) facilitating corporate learning.

45. The 2013/14 annual Audit Plan has an allowance for Audit Services to undertake irregularity investigations, NFI investigations, and proactive anti-fraud and corruption work. This is at a level deemed proportionate to the identified risk of fraud within the Council and is supported by the Head of Strategic Finance and External Auditor.

46. Audit interrogation software is utilised across a range of audits. This can lower the cost of analysis, adds more quality to the work of Audit Services, and meets the professional requirements regarding fraud and internal control. The software can read, display, analyse, manipulate, sample or extract from data files from almost any source.

47. Three members of Audit Services hold CIPFA's Advanced Certificate in Investigative Practice.

Reported Irregularities

48. In addition to a consistent amount of reported irregularities featuring simple thefts of monies and equipment during 2012/13, there were also irregularities where systems / processes and regulations were found not to be functioning as originally proposed, resulting in loss to the Council of money and / or resources. This resulted in having to direct audit resources away from planned audit work in order to investigate and ascertain evidence for these, elements of which have proved time intensive. Where appropriate, these were reported to the Police on the advice of Audit Services and an element of further support to the Police was required (which remains, in some instances, ongoing).

49. The numbers, and types of reported irregularities for 2012/13 were as follows:-

Fraud Type	Number Referred	Number Completed	Number Prosecuted
Procurement	1	1	0
Social Services	3	3	0
Payroll & Employee Contract	1	1	1
Expenses	1	1	0
Theft / Loss of Equipment	30	29	1 ongoing
Other	5	5	4
Total	**41**	**40**	**5**

50. Further irregularities have been worked on by Audit Services during 2013/14. The number of reported thefts / loss of equipment has decreased, but the number of other referrals appears to be constant with the 2012/13 figures. The time spent on such investigations is increasing however, predominantly due to the complexity (including Police and investigator assistance). Audit Services will continue to carefully monitor the number of alleged irregularities to ensure that there is not an issue developing as a result of changes within the organisation. Reasons could include the change in economic climate, the large budget cuts within the Council or weaknesses in, or the removal of, control brought on by the rapid pace of change within the Council.

Conclusion

51. The County Council has sound anti-fraud and corruption arrangements in place. No further action is required, commensurate with the identified risks, but the Council must remain vigilant.

Sources of Further Information

    a) Financial Regulations and Procedures

    b) Anti-Fraud & Corruption Strategy

    c) Anti-Money Laundering Policy

    d) Whistleblowing Policy

    e) Bribery Policy

    f) Protecting the Public Purse 2013 – Fighting Fraud Against Local Government

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http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Protecting-the-public-purse-2013-Fighting-fraud-against-local-government.pdf

Suffolk County Council

FRAUD - DOING THE RIGHT THING SPOT IT – STOP IT   Issue 1

The Local Government Strategy (Fighting Fraud Locally) has identified that £2.2 billion is lost to fraud within the public sector each year.

Fraud often occurs when people are presented with the opportunity and motivation, or when they feel their actions can be justified.

It is the responsibility of all employees to help fight against fraud. You are vital to the detection of fraud and the protection of the public purse.

You are one of the most effective deterrents against fraud. Having good procedures, controls and practices in place lower the chance of these opportunities for fraud presenting themselves.

Your Council needs YOU!

The public expect the highest standards of conduct from councillors and employees.

Through our culture of openness and fairness, we encourage anyone with concerns over potential theft, fraud or corruption to report the matter immediately so we can instigate an investigation promptly.

I would encourage you to familiarise yourself with the council's policies which we have in place to protect the public purse. In these times of financial pressure, we cannot afford to lose money through fraud.

Peter Frost
Interim Head of Audit Services

Welcome to the first edition of **DOING THE RIGHT THING – SPOT IT – STOP IT**

This newsletter aims to provide an update, and raise the awareness of fraud in and around the workplace

Policies

As an organisation we have a number of policies and procedures in place to protect the public purse:-

- Fraud Response Plan
- Anti Bribery Policy and Procedures
- Anti Fraud and Corruption Policy
- Anti Money Laundering Policy and Guidance
- Code of Conduct
- Whistleblowing Policy

All of the above can be obtained on the Suffolk County Council website:

www.suffolk.gov.uk/audit-services

Emerging Fraud Risk Areas	Examples of fraudulent activity nationally
The Audit Commission has identified the following areas of emerging fraud risk:	Detailed below are some examples of fraud and theft from local authorities across the UK
Schools • Theft from income and petty cash; • Failure to declare interests; • Inappropriate procurement activity.	**Direct Payments** A registered social worker was convicted and sentenced to 15 months imprisonment after pleading guilty to fraud and obtaining a sum in excess of £25k through deception by way of direct payments from a council in respect of her alleged care needs.
Grants • False application; • Inappropriate use of funds or abuse of grant application.	The registered social worker had stolen the identity of a care worker who had applied for a job to take care of the registered social worker's own disabled husband. The registered social worker then obtained direct payments for the alleged work.
Personal Budgets and Direct Payments • Failure to declare income / capital; • Fraud by the person managing the personal budget for the customer; • Fraud by the organisation providing care for the customer; • Collusion; • Ghost customer.	**Payroll** A payroll officer was sentenced to 18 months community service for paying herself more than £3,000 that she was not entitled to.
Blue Badges • Counterfeit and forged badges; • Use of lost, stolen, expired and deceased customer's badges.	The officer used the payroll system to make payments to various bank accounts in her name. She then tried to cover up the offences by altering the paperwork.
Procurement • False, inflated or duplicate invoices; • Manipulation of performance figures; • Bias / bribery / corruption in the award of contracts; • Inadequate sign-off / authorisation processes for contract payments.	**School** A finance officer working in a school paid off her debts and funded holidays with more than £10,000 of school funds. Her offences included stealing monies from Comic Relief funds that pupils had raised, income collected from parents for trips, and deposits for the staff Christmas party, and forging overtime forms to boost her income.
The risk of fraud to the Council could be heightened due to: • Fewer controls; • Less segregation of duties; • Transforming of services.	**Internally** As part of recent investigations, two employees of Suffolk County Council have been disciplined. On both occasions it was found that the employees had failed to declare an interest in line with the Council's Code of Conduct.

Contact us

If you wish to discuss any of these issues or to voice any concerns please contact Peter Frost, Interim Head of Audit Services on 01473 264247, or Laura Siddell, Lead Auditor, on 01473 264261.

Alternatively you can email us on audit.enquiries@suffolk.gov.uk

Protecting the Public Purse 2013

CHECKLIST FOR THOSE RESPONSIBLE FOR GOVERNANCE

		Yes	No	Comments
	General			
1.	Do we have a zero tolerance policy towards fraud?	√		
2.	Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with *Fighting Fraud Locally*?	√		
3.	Do we have dedicated counter-fraud staff?		√	Uncommon for county councils to have dedicated resources – Audit Services staff work on counter-fraud issues.
4.	Do counter-fraud staff review all the work of our organisation?			N/A – included within internal audit updates and Annual Report
5.	Does a councillor have portfolio responsibility for fighting fraud across the council?	√		Cllr Noble is the Cabinet Member for Finance & Property.
6.	Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	√		
7.	Have we assessed our management of counter-fraud work against good practice?	√		
8.	Do we raise awareness of fraud risks with: • new staff (including agency staff)? • existing staff? • elected members? • our contractors	√ √ √ √		

9.	Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	√		e.g. NAFN; NFI; External Audit.
10.	Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	√		e.g. NAFN, HCCIAG, CCAN, SWAPs.
11.	Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	√		Action taken as soon as issue identified. Control risk assessed which determines speed of resolution / mitigation of risk.
12.	Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?	√		
13.	Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	√		Anti-Money Laundering Policy & Guidance
14.	Do we have effective arrangements for: • reporting fraud; and • recording fraud	√ √		Anti-Fraud & Corruption Strategy; Audit Services' Fraud Register and fraud documentation.
15.	Do we have effective whistleblowing arrangements? In particular, are staff: • aware of our whistleblowing arrangements? • have confidence in the confidentiality of those arrangements? • confident that any concerns raised will be addressed?	√ √ √		Whistleblowing Policy / posters.

16.	Do we have effective fidelity insurance arrangements?	√		'Crime Cover' with Chubb Insurance covering the Authority against fraud / embezzlement.
	Fighting fraud with reduced resources			
17.	Have we reassessed our fraud risks since the change in the financial climate?	√		Corporate risk which is continually assessed. Audit planning process / body of this report.
18.	Have we amended our counter-fraud action plan as a result?	√		Part of the audit planning process.
19.	Have we reallocated staff as a result?	√		Level of audit work to combat fraud has increased. A proactive fraud role is planned.
	Current risks and issues			
20.	Do we take proper action to ensure that we only allocate social housing to those who are eligible?		√	Not applicable (aimed at District / Borough authorities)
21.	Do we ensure that social housing is occupied by those to whom it is allocated?		√	Not applicable (aimed at District / Borough authorities)
22.	Are we satisfied our procurement controls are working as intended?	√		2013/14 audit on compliance with Procurement Regulations deemed effective.
23.	Have we reviewed our contract-letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?	√		Incorporated within Procurement Regulations.

24.	Are we satisfied that our recruitment procedures: • prevent us employing people working under false identities; • confirm employment references effectively; • ensure applicants are eligible to work in the UK; and • require agencies supplying us with staff to undertake the checks that we require?	√ √ √ √		Compliance with the Government Communication Forum and outcomes from the NFI exercise has tightened these controls.
25.	Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?		√	2013/14 internal audit on direct payments deemed 'ineffective'. Through NFI, the County Council is part of a pilot for this area.
26.	Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?	√		Whistleblowing Procedure. Whistleblowing awareness posters.
27.	Do we take proper action to ensure that we only award council tax discounts and allowances to those who are eligible?		√	Not applicable (aimed at District / Borough authorities)
28.	When we tackle housing and council tax benefit fraud do we make full use of the following: • National Fraud Initiative; • Department for Work and Pensions Housing Benefit matching service; • Internal data matching; and • Private sector data matching?		√	Not applicable (aimed at District / Borough authorities)

	Emerging fraud risks			
29.	Do we have appropriate and proportionate defences against emerging fraud risks: • Business Rates; • Right to Buy; • Social Fund and Local Welfare Assistance; • Council tax reduction; • Schools; and • Grants?	√ √ √		n/a n/a n/a

Key:-

NAFN   National Anti-Fraud Network

NFI   National Fraud Initiative

HCCIAG   Home Counties Chief Internal Auditors' Group

CCAN   County Chief Auditors' Network

SWAPs   Suffolk Working Audit Partnership