

## **AUDIT COMMITTEE: 25 June 2019**

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### **INVESTIGATION TEAM PROGRESS REPORT 2019/20 & DRAFT COUNTER-FRAUD AND CORRUPTION STRATEGY**

#### **REPORT OF THE AUDIT MANAGER**

#### **AGENDA ITEM: 12.2**

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#### **Reason for this Report**

1. The Audit Committee's Terms of Reference requires Members to:
  - Review the assessment of fraud risks and potential harm to the council from fraud and corruption.
  - Monitor the Counter-fraud strategy, actions and resources.
2. This report has been prepared to provide Audit Committee with an update on the work of the Audit Section's Investigation Team, as at the 31<sup>st</sup> May 2019.
3. It also provides the Audit Committee with an opportunity to comment on the development of a draft Counter-Fraud and Corruption Strategy, prior to a request for Cabinet approval on 11 July.

#### **Background**

4. The Audit Manager prepares quarterly progress reports, outlining the work undertaken by the Investigation Team, its key outputs and outcomes. Progress reports focus on the proactive and reactive investigation activities underway, including participation in initiatives, such as National Fraud Initiative (NFI) data matching exercises, and officer training delivered by the team.
5. The draft Counter-Fraud and Corruption Strategy is designed to co-ordinate the counter-fraud policy framework, and it outlines the strategic approach to tackling fraud across the organisation. It seeks to develop and maintain a culture in which fraud, bribery and corruption are understood across the organisation as unacceptable, for which firm action is and will be taken to prevent and detect fraud loss, bring fraudsters to account quickly and efficiently, and to recover any losses. It is reported that 'Fraud costs the public sector at least £20.6bn annually, and of this total, £2.1bn is specifically in local government' (Annual Fraud Indicator 2013 - which provided the last set of government sanctioned estimates).
6. The operational approach to prevent, detect and investigate any suspicions of fraud or financial impropriety is outlined within the Council's Fraud, Bribery and Corruption Policy, which, following Audit Committee consideration in March 2018, was approved by Cabinet on 14 June 2018. The Strategy will provide a line of sight for the Council's range of counter-fraud policies and documents and support their ongoing co-ordination

## Issues

### Progress Update

7. The progress report (**Appendix A**) outlines that authority has been given to advertise for an additional Investigator. At a time when the team has continued to deal with a number of investigations within the Waste Management Service, the additional resource will enable the team to undertake a portfolio of proactive and reactive work on a more sustainable basis. Positive consultation has already taken place with the Trade Unions, and efforts will be made to fill the vacancy during quarter 2.
8. Completed investigations have increased compared to last year, whilst there are seventy current investigations ongoing. This is at a time when referrals are higher than last year, for which the team continues to risk assess and prioritise cases to ensure that investigations are undertaken as necessary. The value of concluded reactive investigations in this first reporting period exceeded £12,000.
9. Matches identifying potential frauds and irregularities have been received from the latest (biennial) round of the National Fraud Initiative exercise, and to date, errors have been identified from which overpayments totalling £5,642 are to be recovered. In respect of the annual Council Tax exercise, the Investigation Team has reviewed 141 matches, resulting in 36 cases identified as fraud / error and generating 27 overpayments with a total value of £14,913. Mandatory Investigating Officer training has also continued, with one session delivered in April.

### Counter-Fraud and Corruption Strategy Development

10. The draft Counter-Fraud and Corruption Strategy (**Appendix B**) is designed to support a fraud reporting culture, strong fraud awareness, assurance, and ownership within Directorates and teams. The Investigation Team has led the development of the Council's Counter-Fraud Strategy. Through the discussions held and decisions made to date, there is a strong corporate commitment to an organisational-wide awareness and training campaign to engage the whole workforce to retain and enhance resilience in fraud risk management. The Strategy and the design and delivery of mandatory eLearning training will add to the proactive work of the Investigation Team, and reaffirm the responsibilities to prevent, detect and report potential fraud
11. The Strategy incorporates best practice guidance and intelligence from the Chartered Institute of Public Finance and Accountancy (CIPFA), notably the 'Fighting Fraud and Corruption Locally Strategy', and the annual 'Fraud and Corruption Tracker'. It has also accounted for the Government's functional standards, which set out the basics that public bodies should have in place to find and fight fraud.
12. To develop the Strategy, best practice information and intelligence on the nature and management of fraud risks has been gained through lead counter-fraud officers participating in ongoing networking. This has involved participation in peer local authority networks such as the Core UK Cities, Welsh Chief Auditor and Welsh Investigator groups, and attending the Wales Audit Office Good Practice Exchange and the Wales Fraud Forum.
13. The Senior Management Team considered and agreed the contents and components of the Strategy in meetings between February and April 2019. The Strategy has been

aligned to the Council's commitment to integrity, ethical values and the law, through its Corporate Values, Constitution, and supporting policies and procedures.

14. The Council's fraud risk assessment is built upon national trends and intelligence and Council specific intelligence, which includes management and internal audit assurance, data matching and analysis (through participation in the National Fraud Initiative Cabinet Office exercises), and disclosures in the public interest through the Council's whistleblowing scheme.
15. The conditions for fraud and fraud 'red flags' are outlined in the Strategy to support all officers and Members to identify potential fraud risks, and information is provided on the responsibilities we all have for fraud risk management, and reporting concerns.

### Counter Fraud Response

16. The Strategy includes a Counter-Fraud Action Plan, which outlines the core proactive and responsive activities and their frequency. Each of the counter-fraud activities are designed to 'acknowledge' and understand fraud risks, to 'prevent' and detect more fraud, and to 'pursue' and punish fraudsters.
17. Council-wide training and awareness is a cornerstone of the refreshed corporate counter-fraud response, for which priority actions have been programmed for 2019/20. A mandatory eLearning Fraud Awareness module will be rolled out commencing July 2019 and face-to-face training events will be arranged to reach non-computer users and school officers.
18. Planning is also underway to participate in the International Fraud Awareness Week, 17 – 23 November 2019. International Fraud Awareness Week, or Fraud Week, was established by the Association of Certified Fraud Examiners (ACFE) in 2000 to raise awareness about fraud. The week-long campaign provides an opportunity to take proactive steps to promote anti-fraud awareness and education.
19. The Counter-fraud Action Plan also sets out the primary anti-fraud policies, and their review timescale to keep up to date with legislative and best practice approaches. It also sets out the participation in fraud networks for ongoing information on national and regional attempted and committed frauds, relevant trends and intelligence. Exercises are also planned to checks management assurance statements and risk updates periodically on fraud related matters, and to provide advice and assurance on consistent fraud risk measurement and management.

### **Legal Implications**

20. Non adherence to this strategy may facilitate serious financial and corporate governance weaknesses. It is a mandatory requirement that the Council adheres to the laws which are applied within the Strategy i.e. the Fraud Act, Bribery Act and Theft Act etc. The Anti-Fraud and Corruption Strategy is the umbrella document demonstrating the activities taking place to combat fraud and corruption. Fraud and corruption exist in many formats and impact (amongst other matters) upon the Council's finances, service delivery and its customers. A realistic Anti-Fraud and Corruption Strategy helps to address all areas of prevention, detection and prosecution/sanction of potential and actual illegality.

## **Financial Implications**

21. A Counter Fraud and Corruption Strategy is an important aspect of promoting effective financial stewardship and helping to safeguard the Council's financial resources.

## **HR Implications**

22. It will be important that the mandatory eLearning is effectively communicated to the target audience, including how this training will be mandated to schools. A Monitoring Procedure will need to ensure compliance against the training.

## **RECOMMENDATIONS**

23. That the Committee:

- Notes the content of the progress report
- Notes and considers the draft Counter-Fraud Strategy, prior to a request for Cabinet approval on 11 July.

**CHRIS PYKE**  
**AUDIT MANAGER**  
25 June 2019

The following appendices are attached:

**Appendix A:** Investigation Team - Progress Report June 2019

**Appendix B:** Draft Counter-Fraud and Corruption Strategy

**Appendix C:** Equality Impact Assessment – Counter-Fraud and Corruption Strategy