The Vale of Glamorgan Council

Audit Committee: 19th November 2018

Report from the Operational Manager Audit as the Head of Audit

Audit Committee - Corporate Fraud Framework

Purpose of the Report

1.   To provide Members with an update on the Council's overarching Corporate Fraud Framework in accordance with the functions of the Audit Committee as outlined in their Terms of Reference.

Recommendation

1.   That Members note the report

Reason for the Recommendation

1.   To keep the Audit Committee informed.

Background

2.   One of the Core functions of an effective Audit Committee is:

•   To consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements. Therefore, this report is focused on updating the Committee on the arrangements in place for Corporate Fraud.

3.   The challenge presented to Councils by fraud is significant. As stated in the "The Local Government Counter Fraud and Corruption Strategy 2016-19" (usually known as Fighting Fraud and Corruption Locally), it is estimated that fraud costs councils around £2.1 billion each year and some reports produced by other organisations suggest that this figure could actually be higher.

4.   The impact of fraud should never be underestimated. Fraud leaves the council with less to spend on services for residents and costs taxpayer's money. Fraud against a local council is not a victimless crime. There's not only the lost/stolen money to consider but also:

•   The loss of working time, with offers putting things right and liaising with police and lawyers;

- Cost of the investigation and any subsequent court costs;

- Increased insurance premiums;

- Reduced or poor service for residents;

- Political impacts,

- Reputational damage for individuals or the Council as a whole; and

- Poor staff morale leading to poor performance and/or fraud.

5. According to the CIPFA Fraud and Corruption Tracker 2016, the areas posing the highest fraud risk for councils were (this list is not exhaustive):

- Council Tax Fraud - intentionally giving incorrect or misleading information;

- Social Housing / Tenancy Fraud - the unlawful misuse of social housing;

- Procurement Fraud - supply chain, contract letting etc. ; and

- Adult and social care and direct payments - overstatement of needs through false declarations, multiple claims across authorities, collusion with care agencies etc.

6. Public Service organisations have a responsibility to embed effective standards for countering fraud, corruption and bribery. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

Relevant Issues and Options

7. A review has been undertaken which has been based on the good practice identified in the Local Government Fraud Strategy. It included an assessment of how well the Council acknowledges the risk of fraud and how it prevents, detects and pursues monies or assets obtained fraudulently. Attached at Appendix A is the Fraud Strategy and Framework 2018/19 to 2020/21 together with an Action Plan of proactive fraud activity to stimulate improvement which has been developed as a consequence of the assessment. This document provides an extension to the council's existing policies affording a framework of reactive and proactive initiatives to detect fraud and / or demonstrate assurance that fraud has not taken place.

Resource Implications (Financial and Employment)

8. There are no resource implications as a direct consequence of this report.

Sustainability and Climate Change Implications

9. There are no sustainability and climate change implications as a direct result of this report

Legal Implications (to Include Human Rights Implications)

10. Provision of an adequate and effective Internal Audit function is a legal requirement under the Accounts and Audit (Wales) Regulations 2014 as amended from time to time.

Crime and Disorder Implications

11. Pursuing initiatives to prevent, detect and deter crime is encompassed within the terms of reference under which the audit function operates.

Equal Opportunities Implications (to include Welsh Language issues)

12. None as a direct consequence of this report.

Corporate/Service Objectives

13. The work of audit is intended to assist in the achievement of all corporate and service objectives.

Policy Framework and Budget

14. The proposals in this report are in accordance with the policy framework and budget.

Consultation (including Ward Member Consultation)

15. No further consultation is proposed.

Relevant Scrutiny Committee

16. Corporate Performance and Resources.

Background Papers

None

Contact Officer

Helen Smith - Operational Manager - Audit

Officers Consulted

External Audit - Wales Audit Office

Responsible Officer:

Carys Lord - Head of Finance / Section 151 Officer

FRAUD STRATEGY AND FRAMEWORK 2018-19 / 2020-21

VALE OF GLAMORGAN COUNCIL

CONTENT

1. **Introduction**

Public Service organisations have a responsibility to embed effective standards for countering fraud, corruption and bribery into the organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

The CIPFA Code of Practice on Managing the Risk of Fraud & Corruption published in October 2014, sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

It is these principles that underpin the approach to support the management of the risk of fraud, corruption and bribery within the Vale of Glamorgan Council.

The Vale of Glamorgan Council has a zero tolerance culture to fraud, corruption and bribery.

"The Council is determined that the culture and tone of the organisation is one of honesty, integrity and opposition to fraud and bribery. There is an expectation and requirement that all individuals and organisations associated, in whatever way, with the Council will act with integrity".

"Councillors and Employees at all levels will lead by example in these matters and act in accordance with all Council Codes of Conduct and codes of conduct applicable to individuals. Employees are expected to follow any Code of Conduct related to their personal professional qualifications and also to abide by the National Code of Conduct together with any relevant amendments and local policies". (Vale of Glamorgan Council – Anti-Fraud & Bribery Policy).

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection, investigation of fraud, corruption and bribery (Anti-Fraud & Bribery Policy; Whistleblowing Policy). This document provides an extension to the council's existing policies affording a framework of reactive and proactive initiatives to detect fraud and / or demonstrate assurance that fraud has not taken place.

2. The Changing Face of Fraud

The changing context, in which local government services are delivered, the increasing risk of fraud by motivated offenders, reduced local authority resources and associated changes to existing local control frameworks together create a pressing need for a new approach to tackling fraud perpetrated against local government. The principles of the required approach are outlined in *(fig 1).*

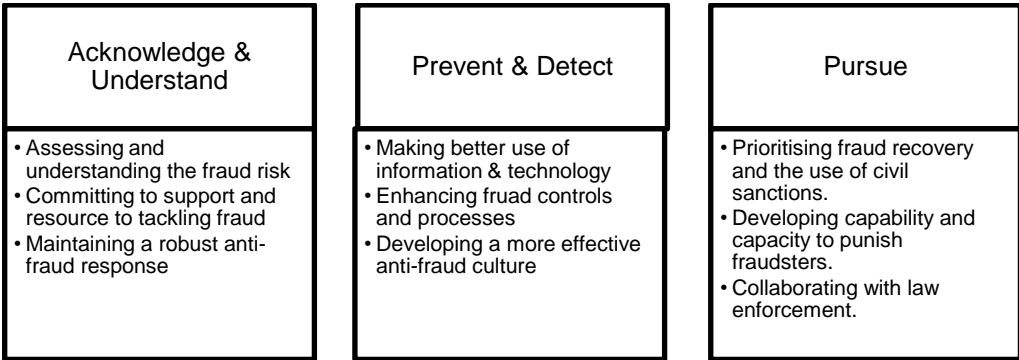| Acknowledge & Understand	Prevent & Detect	Pursue
• Assessing and understanding the fraud risk • Committing to support and resource to tackling fraud • Maintaining a robust anti-fraud response	• Making better use of information & technology • Enhancing fruad controls and processes • Developing a more effective anti-fraud culture	• Prioritising fraud recovery and the use of civil sanctions. • Developing capability and capacity to punish fraudsters. • Collaborating with law enforcement.

Fig 1 (Fighting Fraud & Corruption Locally – The local government counter fraud & corruption strategy)

These principles are underpinned by having regards to:

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 risks.**
Capacity	• **Deploying the right level of resources to deal with the level of risk**
Competence	• **Having the right skills and standards.**
Communication	• **Raising awareness, deterring fraudsters, sharing information, celebrating success.**
Collaboration	• **Working across boundaries with other authorities and agencies, sharing resources, skills and learning.**

3. **Reactive Fraud Activity**

Internal Audit will work seamlessly with management in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews will be co-ordinated by professional staff, in accordance with the Council's Anti-Fraud & Bribery Policy.

Reactive fraud and irregularity work is unpredictable with regard its level and duration; however, Internal Audit will monitor this during the year and support management where deemed necessary.

4. **Proactive Approach**

Whilst the established process to reactive fraud assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and deter fraud risks across the Council.
Such proactive measures have been designed alongside the themes outlined within the "Six Cs" (Culture, Capability, Competence, Communication and Collaboration).

Internal Audits' understanding of the Council's service activities coupled with research from benchmarking with other local authorities / publications and national surveys fraud risks have highlighted a list of areas for consideration as part of the Council's proactive fraud activities for 2018/19.

It is also recognised that 2018 is a National Fraud Initiative investigation year and as such Internal Audit will be facilitating this process.
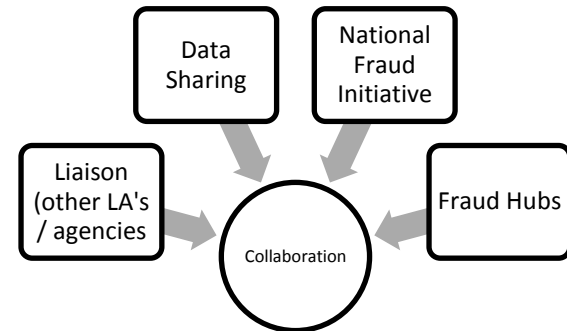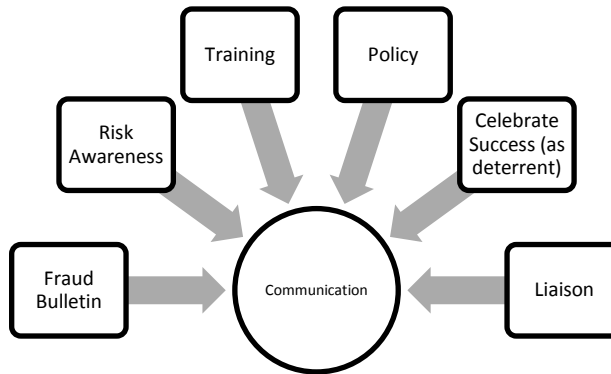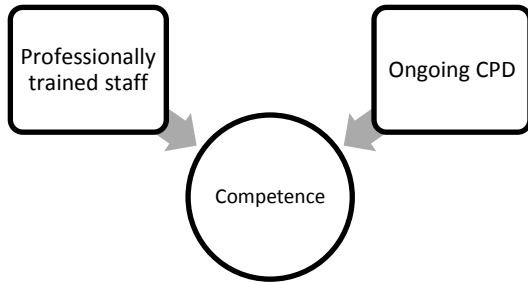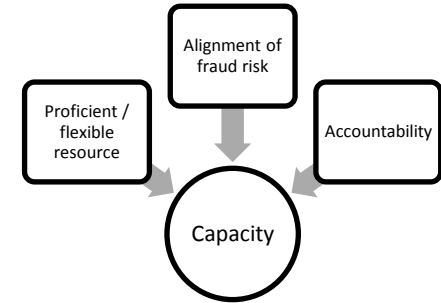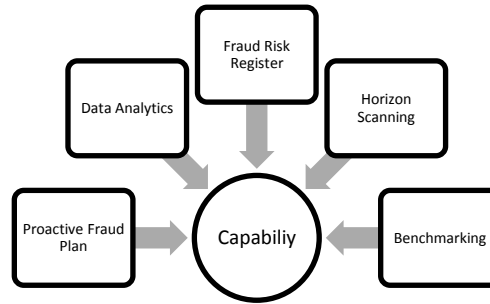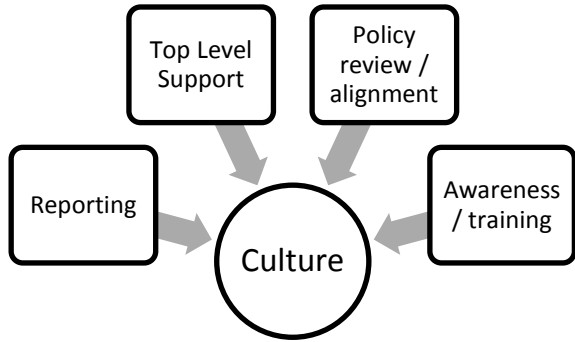
5. **Fraud Action Plan 2018/19 to 2020/21**

A self-assessment against the Fighting Fraud & Corruption Locally 2016 was completed and an action plan put in place to stimulate improvement. Building on this intelligence and through locally retained knowledge and expertise the following action plan of proactive fraud activity is proposed for 2018/19 to 2020/21

Activity	Scope	Allocated Resource (days)	Responsible Officer	Due Date	Expected Outcome
Fraud Risk Registers	To develop fraud risks register(s) and align to complement the existing risk management approach.		Investigating Officer	April 19	Key fraud risks aligned to the Council on which to monitor and focus future proactive fraud activity.
Fraud Risk Register	Maintain the fraud risk register and regularly monitoring trends to identify areas of high risk		Investigating Officer	Ongoing to 2020/21	Focussed proactive work in accordance with outcome of the trend analysis.
National Fraud Initiative	To facilitate the timely delivery of NFI 2018 /19 data matches. Undertake integrity checks on a sample of cleared matches to ensure robustness / quality of review and select of sample of high risk matches across the spectrum to investigate.

Regularly monitor progress against recommended matches throughout the duration of the exercise. | | Investigating Officer | Oct 18 To Oct 19

Ongoing to 2020/21 | Investigation of all recommended matches as reported in the NFI download in a timely manner and in accordance with the guidance. |
| Develop devoted fraud internet / intranet pages | To enable a clear and concise point of reference for necessary information on fraud and irregularity maximising the potential of digital to enhance the user experience.

Maintain the fraud internet / intranet pages to ensure they are kept up to date. | | Investigating Officer | April 19

Ongoing to 2020/21 | Through engagement with Comms / Web design, create an interactive web/intranet page maximising the use of digital to effectively communicate and embed cultural awareness. |
| Training & Awareness | Develop an effective fraud awareness training programme for Members and Officers.

Provide ongoing training as required for the duration | | Investigating Officer | April 19

Ongoing | To develop and roll out training model corporately and delivery of bespoke training from Members. Assess and deliver focused areas of officer training (Bribery Act, Fraud Act, Money Laundering). |

	of the action plan		to 2020/21	
Data Analytics	To maximise the use of data analytics and data matching to match electronic data to detect and prevent fraud.	As Above	April 19	To complement the NFI through a suite of data matches across the Council providing real time identification of instances requiring further investigation.
Develop alerts and newsletters to raise awareness and notify readers of new and potential fraud risks.	Develop alerts and newsletter across the Council.	As above	April 19	Knowledge sharing and awareness disseminated across the Council.
	Produce Newsletters at regular intervals throughout the duration of the action plan.		Ongoing to 2020/21	
No Recourse to Public Funds	With a national increase in applications there has been a consequent increase in attempts by fraudsters to obtain public funds via false applications. Also a developing trend for individuals to make multiple applications across different authorities. This can be linked to the NFI 2018 data matching exercise.	As above	April 19	Investigation of potential fraudulent activity or provision of assurance that controls to mitigate recognised fraud is working.
Annual Report on Fraud & Irregularity	To produce an end of year report to those charged with governance covering all reactive and proactive fraud initiatives.	Head of Audit and Investigating Officer.	April 19 April 20 April 21	To present a report to CMT and Audit Committee outlining progress against
Schools	Conduct a "Fraud Health Check" across school establishments to attain assurance over the controls and governance in place to mitigate the potential for fraud.	Investigating Officer	March 2021	To consolidate findings and relay to all schools and Governors through the most appropriate medium (newsletter, conference etc.,)

6. Six C's Matrix

Culture:
- Top Level Support
- Policy review / alignment
- Reporting
- Awareness / training

Capabiliy:
- Data Analytics
- Fraud Risk Register
- Horizon Scanning
- Proactive Fraud Plan
- Benchmarking

Capacity:
- Proficient / flexible resource
- Alignment of fraud risk
- Accountability

Competence:
- Professionally trained staff
- Ongoing CPD

Communication:
- Risk Awareness
- Training
- Policy
- Celebrate Success (as deterrent)
- Fraud Bulletin
- Liaison

Collaboration:
- Liaison (other LA's / agencies)
- Data Sharing
- National Fraud Initiative
- Fraud Hubs

7. **Key Fraud Risks relevant to the Vale of Glamorgan Council**

Fraud Risk Area	Overview
Internal Fraud	Diverting Council monies to a personal account, accepting bribes, stealing cash, misallocating social housing for personal gain, working elsewhere while claiming to be off sick, false overtime claims, allowances / expenses claims, misuse of time / resources, conflicts of interest, inappropriate acceptance of gifts & hospitality, manipulation of key systems i.e. payroll, pre-employment fraud, abuse of position etc.
Procurement Fraud	Tendering issues, split contracts, double invoicing (include P.Cards).
Insurance Fraud	Fictitious claims, including slips and trips
Disabled Facilities Grants	Fraudulent applications for adaptions to homes aimed at the disabled.
Grants	Work not carried out, funds diverted, ineligibility not declared.
Schools	Procurement fraud, payroll fraud, internal fraud.
No recourse to public funds	False declarations and ineligibility to public funds
Commissioning of services	Including joint commissioning, third sector partnerships, conflicts of interest, collusion.
Financial Assessments	Non-disclosure of assets. Charging policies impacted by Care Act.
NFI – Tenancy Fraud, Payroll, Council Tax, Blue Badges, Pensions	Examine how robust NFI recommended matches are investigated.

This list is not exhaustive