

**FINAL ACCOUNTS AND AUDIT COMMITTEE
28 JUNE 2007**

MANAGING THE RISK OF FRAUD

Purpose of the Report

1. To inform the Committee of current guidance and expectations with regard to countering fraud and corruption and to outline the County Council's current position in relation to these and further action being taken and proposed.

Background

2. At the last Committee meeting in March 2007 members were made aware of the following developments relating to fraud and corruption:
 - guidance issued by the CIPFA Better Governance Forum (BGF) on 'Managing the Risk of Fraud', which sets out a comprehensive, proactive approach to combating fraud and corruption
 - the expectations of the Audit Commission's Use of Resources Assessment in relation to measures needed to counter fraud and corruption.
3. It should be noted that the Standards Committee is the responsible committee in relation to Anti-Fraud and Corruption and Whistleblowing, in accordance with the Governance and Reporting Arrangements adopted by Final Accounts and Audit Committee in September 2006. Work in relation to these areas will therefore be reported regularly to the Standards Committee, whilst Final Accounts and Audit Committee will exercise a reviewing and scrutinising role.

Main Considerations for the Council

CIPFA Guidance

4. The CIPFA Better Governance Forum guidance, 'Managing the Risk of Fraud', covers five key areas. These areas are outlined below, together with a note of the County Council's progress to date and further work needed. A more detailed summary of the key elements is attached at Appendix 1.

Key Elements of a Strategic Approach

5. The CIPFA guidance is looking for a counter fraud and corruption policy linked to overall strategic objectives, which has been directly agreed by those with political and executive authority.

6. The County Council's Anti-Fraud and Corruption Policy was updated, approved and relaunched early in 2006 and is available on the Intranet. It is important to ensure that the policy is reviewed regularly and that the general level of awareness of staff and members is maintained. The Chief Auditor in conjunction with the Corporate Standards Manager will carry out a review of this policy over the summer and the results will go to Cabinet for approval.

Identifying the Risks

7. The guidance expects that fraud and corruption risks are considered and potential losses quantified, as part of strategic risk management arrangements of the Council.
8. Internal Audit is at present undertaking a fraud and corruption risk assessment across the authority to identify those areas most at risk. This will involve working closely with departments in order to agree priorities requiring action. The aim is to ensure that risks identified are recognised and recorded within the County Council's overall risk management arrangements. A specific element has been included within the Audit Plan for 2007-07 to carry out counter fraud and corruption work in the identified high risk areas.

Creating and Maintaining a Strong Culture

9. The guidance anticipates that there is strong political and executive support for counter fraud and corruption work and that those carrying out such work are properly trained and accredited for the role.
10. The County Council currently does not have staff dedicated solely to counter fraud and corruption work. This work has been carried out by Internal Audit staff and/or the Corporate Standards Manager, liaising with the police where needed.
11. The need for developing expertise is recognised and one practical result is the planned cascade training for Internal Audit staff on how to conduct fraud investigations and training on fraud developments is also planned. Internal Audit is also represented on the West of England Fraud Group, which meets to discuss and disseminate good practice in relation to counter fraud and corruption work by internal auditors throughout the region.

Taking Action to Tackle the Problem

12. The guidance is advocating a comprehensive range of actions including strong deterrence measures, effective whistleblowing arrangements and a clear investigations process.
13. The County Council's Staff Code of Conduct describes the obligations of all staff to be aware and report any concerns about fraud issues.
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16. The County Council's Whistleblowing Policy was relaunched in 2006. In April 2007 the Standards Committee received a report on progress regarding investigations carried out under the new policy. This demonstrated the effectiveness of the policy and that whistleblowers' concerns were being addressed and appropriate action taken. An annual report on whistleblowing will be presented to the Standards Committee later this year.

Defining Success

17. The guidance expects authorities to focus on outcomes for their counter fraud and corruption work and quantify recovery of losses where appropriate. Proposals are being developed for this to be included in future reports.

Audit Commission

18. The Audit Commission has given prominence to countering fraud and corruption in its Key Lines of Enquiry for the Use of Resources Assessment. These incorporate the following criteria:
 - A strong counter fraud culture is supported and promoted by members and senior officers
 - The Council undertakes proactive counter fraud and corruption work which is determined by a formal risk assessment
 - The Council can demonstrate that counter fraud and corruption work is adequately resourced
 - Investigations into allegations of fraud and corruption are conducted in accordance with statutory requirements, by appropriately trained staff
 - That the risk of fraud and corruption is specifically considered in the Council's overall risk management process.
19. These criteria are covered by the CIPFA BGF guidance and therefore the action which the County Council takes will support our use of Resources Assessment.
20. As part of the Council's focus to ensure the integration of risk, performance and fraud, the strategic management of risk is becoming the responsibility of the Performance and Risk Team within the Resources Department. Once the Risk Manager heading that team is in post they will be able to work closely with Internal Audit to ensure appropriate effective links between fraud, risk and performance.

Summary

21. Managing the risk of fraud and corruption is the responsibility of all management across the authority and the CIPFA BGF guidance helps

reinforce this message, by raising the profile of the topic as an issue which must be addressed corporately and consistently.

22. The County Council already has a number of elements in place which accord with the latest guidance and expectations in relation to countering fraud and corruption. However, there are still areas outlined above which can be strengthened and where further work is needed. Development of this work is a key priority for the Internal Audit Section in 2008-09 and we anticipate being able to report back on progress to the next meeting of this committee.

Environmental Impact of the Proposal

23. No environmental impact has been identified.

Financial Implications

24. There are no additional costs arising from the proposals at this stage. This may change if the need for extra work or training arises, which are beyond the current level of Internal Audit's resources.

Reasons for the Proposal

25. To inform the Committee of current guidance and expectations for work to counter fraud and corruption and to outline the County Council's current position in relation to these and further action being taken and proposed.

Proposal

26. The Committee is asked to note:
- the summary of current guidance and expectations with regard to countering fraud and corruption set out in this report
 - that the County Council has a number of elements in place which meet the latest guidance and expectations, but that there are areas which can be strengthened and where further work is needed
 - that as a key priority Internal Audit will continue to work on these areas, to ensure the necessary progress is made and progress is reported regularly.

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Unpublished documents relied upon in the preparation of this Report: none

Published documents used in preparing this report:

'Managing the Risk of Fraud' – CIPFA Better Governance Forum

'Use of Resources Key lines of Enquiry for 2007 Assessments' – Audit Commission