

Report

Subject : Fraud Risk Standard
Report to : Audit Committee
Date : Thursday 10 January 2008
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1. Introduction:

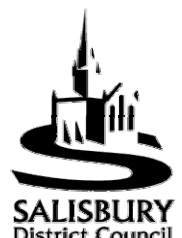
- 1.1 In 2006 the CIPFA Better Governance Forum Counter Fraud Advisory Panel published 'Managing the risk of fraud' a guidance document describing what action is needed for an organisation to be effective in countering fraud and corruption. The guidance was aimed at all public sector organisations and is therefore generic. It did not make a distinction between those organisations facing high levels of fraud risk and those with lower risks.
- 1.2 Arrangements at Salisbury for counter fraud work are split between the benefit fraud team, part of Revenue and Benefits, and Internal Audit. Internal Audit's responsibilities for counter fraud work are directed at the corporate counter fraud strategy, coordination of the National Fraud Initiative and internal investigations. The benefit fraud team focus on housing and council tax benefit fraud investigations and fraud awareness. Benefit fraud has always been the area of greatest fraud risk to the council. In 2006/7 the team identified fraud of £129,000. The team currently has resources of 4 full time equivalent staff. In the 2007/8 audit plan 42 days are budgeted for counter fraud work. Fortunately Salisbury has not experienced a major internal investigation in recent years, but were it to do so resources would need to be diverted from audit work to support the investigation.

2 Review against the Standard:

- 2.1 A self-assessment has been undertaken against the standards in consultation with the Benefit Fraud team. (Appendix A) When considering the results of the comparison against the best practice advocated by the standard it is important to consider the level of fraud risk.
- 2.2 Ordinarily the review would have led to an action plan, however with the transition to a unitary authority any planned improvements need to consider the wider context of the new authority and practice elsewhere in other Wiltshire councils to avoid wasted efforts. It is important to recognise however that managing the fraud risks of the new authority will be a key part of the council's risk management and internal control arrangements which should be considered along with the broader issues of good governance, risk management and internal control. Potentially the establishment of the new authority presents an opportunity for counter fraud work to cover the geographic area of Wiltshire more effectively and to devote more resource to corporate counter fraud work. These issues cannot be addressed by Salisbury District Council in isolation however.



Awarded in:
Housing Services
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2.3 The standard covers five key areas

- Adopting the right strategy
- Accurately identifying the risks
- Creating and maintaining a strong structure
- Taking action to tackle the problem
- Defining success.

3 **Results of the Review:**

4.1 The detailed self-assessment is included at Appendix A. The areas of strength identified by the review include the following:

- The strategic approach in place with the anti fraud policy that is in place, although this is due for updating.
- Training and accreditation of the benefit fraud team
- Arrangements in place to develop a counter fraud culture and prevent fraud.
- Investigations and sanctions arising from the work of the benefits fraud team.

4.2 Areas of weakness identified by the review include the following:

- Fraud risks not linked to quantification of losses though fraud.
- Limited liaison arrangements with other bodies, with the exception of the police and Department of Work and Pensions.
- Limited publicity of the results of investigations to act as a deterrent.
- Little recovery of losses except through recovery of benefit.
- No clearly described outcomes for counter fraud work.

5 **Next Steps:**

5.1 Discussion between the Head of Revenue and Benefits and the Chief Auditor have identified the following actions that are considered to be of benefit now and which will not be adversely affected by the new authority or be resource intensive.

- Publicise successful investigations, recoveries and penalties to improve deterrence of fraud.
- Continue work to develop counter-fraud awareness amongst staff for both benefit and other fraud.
- Respond to any new fraud risks which arise as a result from the transition process to the new authority.

5.2 Longer term goals which Salisbury District Council would like to be addressed by the new authority have also been identified. These are designed to ensure that the new governance, risk management and internal control arrangements take the standard into account.

Managing the Risk of Fraud - Objectives for the new authority
<u>Primary objective:</u> ensure that the arrangements to manage the risk of fraud to the new authority are established in line with best practice, as appropriate. This applies to all forms of fraud.
Secondary objectives:
<ul style="list-style-type: none"> • Ensure that that an effective counter fraud policy and strategy are adopted.
<ul style="list-style-type: none"> • Ensure the integration of fraud risks with the strategic risk management approach.
<ul style="list-style-type: none"> • Ensure that counter fraud work is properly resourced and has the necessary authority to perform effectively.
<ul style="list-style-type: none"> • Develop a counter fraud culture and internal controls to prevent and detect fraud.
<ul style="list-style-type: none"> • Identify clear outcomes for counter fraud work.

5.3 To pursue these objectives it is important that Salisbury DC seeks to influence the establishment of arrangements for the new authority during the transition period. Following a comparison of the governance and internal control arrangements of Wiltshire Councils an Internal Governance project team is now being planned within the Resources workstream. It is planned that arrangements for counter fraud policies will be reviewed as part of this. The results of this will be reported to Salisbury's Transition project team.

5.4 It had been planned to revise the existing anti fraud strategy which had existed since 2003 following this review. In addition the possibility of aligning the council's stance against fraud with the council's other enforcement activities, notably planning and environmental health, was also being explored. It had been envisaged that a single policy could be developed with subsidiary service specific strategies and a prosecution policy to support this. There may not be merit in pursuing this approach for Salisbury alone but could be a platform for the future.

6 Recommendations

6.1 The Committee is recommended to note the results of the self-assessment and the immediate actions proposed.

6.2 The Committee is asked to endorse the objectives for the future arrangements of counter fraud work in the new authority that Salisbury DC will seek to achieve.

Managing the Risk of Fraud – Self-Assessment

	Assessment question from the Standard	Score for the council's corporate arrangements (out of 10)	Score for the benefit fraud investigation arrangements (where applicable) (out of 10)	Comments
Key elements of a strategic approach				
1.1	Does the organisation have a counter fraud and corruption strategy that can be clearly linked to the organisation's overall strategic objectives?	8	9	The counter-fraud strategy was approved in 2003. The document makes an explicit link to the council's core values, although not to strategic objectives. The strategy can be linked to organisational priorities.
1.2	Is there a clear remit to reduce losses to fraud and corruption to an absolute minimum covering all areas of fraud and corruption affecting the organisation?	9	9	Clear direction in the policy.
1.3	Are there effective links between 'policy' work (to develop an anti-fraud and corruption and 'zero tolerance' culture, create a strong deterrent effect and prevent fraud and corruption by designing and redesigning policies and systems) and 'operational' work (to detect and investigate fraud and corruption and seek to apply sanctions and recover losses where it is found)?	5	8	The majority of 'operational' work is undertaken by the benefits fraud team, whereas the 'policy' work is mainly undertaken by Internal Audit. Work on the policy area has included the fraud risk assessment in 2005, but is not extensive.
1.4	Is the full range of integrated action being taken forward or does the organisation 'pick and choose'?	6	7	The 'strategies' against fraud are set out in document. They are all used but at the corporate level this will be very low key. <i>For benefits the aim is for integration</i>

1.5	Does the organisation focus on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.)?	6	9	Little focus on outcomes at the corporate level, which is a reflection of the low level of investigations. Benefits use a split focus due to beliefs that reduced loss will mean increased monies in the purse
1.6	Has the strategy been directly agreed by those with political and executive authority for the organisation?	6	10	The strategy was approved by Standards Committee rather than the Cabinet. Future changes should go through Audit Committee before approval by Cabinet.
	OVERALL SCORE for section 1	40/60	52/60	
Accurately identifying the risks				
2.1	Are fraud and corruption risks considered as part of the organisation's strategic risk management arrangements?	6	6	Not explicitly referred to in the Risk Management Policy. Fraud risk review undertaken in 2005, which suggested that fraud risks should be, included in operational risk registers. Little progress made on implementing this. Fraud risk is considered during Audit planning.
2.2	Is the organisation seeking to identify accurately the nature and scale of losses to fraud and corruption, using a: • proper definition of fraud based in civil law for making accurate estimates? • professional statistical methodology for making accurate estimates and building in a proper level of independent validation?	5	7	Low score reflects the low incidence of fraud at corporate level. Nature and scale is recorded nationally through the DWP
2.3	Does the organisation use accurate estimates of losses to make informed judgements about levels of budgetary investment in work to counter fraud and corruption?	5	10	No material losses in recent years at the corporate level. DWP use nationally recorded averages to set the budgetary investment
	OVERALL SCORE for section 2	16/30	23/30	

Creating and maintaining a strong structure				
Having the necessary authority and support				
3.1	Do those tasked with countering fraud and corruption have the appropriate authority needed to pursue their remit effectively, linked to the organisation’s counter fraud and corruption strategy?	9	10	Authority is set out in Counter Fraud Strategy and also in Financial Regulations and Internal Audit Terms of Reference As required by current legislation
3.2	Is there strong political and executive support for work to counter fraud and corruption?	6	8	Leader and Chief Executive supported the ‘Link up’ article in 2006. Otherwise low profile reflects low incidence of fraud. Yes backing by portfolio holders
3.3	Is there a level of financial investment in work to counter fraud and corruption that is proportionate to the risk that has been identified?	6	10	No dedicated resource at the corporate level. Some allowance made within Internal Audit Plan. A major investigation would mean deviation from audit plan. However, this would be a rare occurrence. Yes nationally set by the DWP
Specialist training and accreditation				
3.4	Are all those working to counter fraud and corruption professionally trained and accredited for their role?	6	10	Professional training has been provided to Internal Audit, however none are accredited fraud investigators. Limited practical experience. Arrangements have been made for a benefit investigator to support or advise on a corporate investigation if required. Benefit investigators are all fully accredited for their role
3.5	Do those employees who are trained and accredited formally review their skills base and attend regular refresher courses to ensure they are abreast of new developments and legislation?	6	6	Professional update training is undertaken but not annually. Training authority is in the process of offering refresher training, but other non-core subjects are reviewed
3.6	Are all those working to counter fraud and corruption undertaking this work in	10	10	Internal Audit staff are professionally trained and work to the ethical standards

	accordance with a clear ethical framework and standards of personal conduct?			of their own professional bodies, as well as the ethics standards of the CIPFA Code of Practice for Internal Audit on which the Terms of Reference for Internal Audit are based.
Propriety checks				
3.7	Is an effective propriety checking process - implemented by appropriately trained staff - in place that includes appropriate action where individuals fail the check?	6	10	Vetting procedures are carried out by Personnel at the recruitment stage. Additional vetting in place for benefit staff and similar. Vetting checks are in place for counter fraud staff
3.8	Does the organisation regularly review its propriety checking and are random checks carried out to ensure that it is implemented?	6	6	Subject to audit in a future plan. Extent of management review within Personnel is not known. Awaiting management review as above
Developing effective relationships with other organisations				
3.9	Are there framework agreements in place to work with other organisations and agencies?	5	10	Liaison established with the Police. None for other agencies at the corporate level. Frameworks are in place to allow work with a full range of partners
3.10	Are the framework agreements focused on the practicalities of common work?	1	8	Yes but seem to be biased towards our partners
3.11	Are there regular meetings to implement and update these agreements?	1	7	Only with some of our partners
	OVERALL SCORE for section 3	62/110	95/110	
Taking action to tackle the problem				
Full range of action				
4.1	Is the organisation undertaking the full range of necessary action (see also 1.3)?	6	8	Concerns are responded to. Fraud risk assessment undertaken. Fraud awareness training etc to be partly covered by Audit Commission Ethical Governance workshops.

				<i>Increasing profile through awareness and publicity</i>
	Culture deterrence and prevention framework			
4.2	Does the organisation have a clear programme of work attempting to create a real anti-fraud and corruption and zero tolerance culture (including strong arrangements to facilitate whistleblowing)?	6	6	Whistleblowing policy and procedure in place. 'Link up' publicity last year (2006). Audit Commission Ethical Governance workshops planned for 2007/8. Computer based training planned in conjunction with benefits. As above but targeted awareness sessions
4.3	Are there clear goals for this work (to maximize the percentage of staff and public who recognize their responsibilities to protect the organisation and its resources)?	6	7	Yes but not set out though Starting to undertake with awareness sessions
4.4	Is this programme of work being effectively implemented?	6	8	No long term planning Started to implement
4.5	Are there arrangements in place to evaluate the extent to which a real anti-fraud and corruption culture exists or is developing throughout the organisation?	7	7	Ethical governance diagnostic from Audit Commission will assist here. As above but will also undertake online training with will assist with evaluation
4.6	Are agreements in place with stakeholder representatives to work together to counter fraud and corruption?	3	3	Links to partners not developed. Whistleblowing policy for contractors in place. Will assist Internal Audit to deliver
4.7	Have arrangements been made to ensure that stakeholder representatives benefit from successful counter fraud and corruption work?	1	1	No Not aware but again prepared to assist
	Deterrence			
4.8	Does the organisation have a clear programme of work attempting to create a strong deterrent effect?	5	8	No formal programme for counter fraud work corporately, but there are links to other work programmes, e.g. Audit Plan.

				Clear programme which is attempting to create the deterrent effect
4.9	Does the organisation have a clear programme of work to publicise the: <ul style="list-style-type: none"> • hostility of the honest majority to fraud and corruption; • effectiveness of preventative arrangements; • sophistication of arrangements to detect fraud and corruption; • professionalism of those investigating fraud and corruption and their ability to uncover evidence; • likelihood of proportionate sanctions being applied; and • likelihood of losses being recovered? 	6	9	Link up article in 2006 addressed the first two items. All staff are advised about data matching through the National Fraud Initiative. The points raised, are met by the department through active publicity and understanding of it's remit.
4.10	Has the organisation successfully publicized work in this area?	1	10	No work to publicise. Use of regular press releases and links to the local radio
4.11	Has the publicity been targeted at the areas of greatest fraud losses?	1	8	No work to publicise. Increasing awareness is leading to more targeted campaigns
4.12	Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?	5	6	This is included in the strategy and was referred to in 'Link up'. Audits may identify fraud risks in systems. Any investigation will include advice on control improvements if applicable. Whether managers are proactive in the development / improvement of policies and systems is more difficult to gauge. All new changes to the system are reviewed for possible weakness
4.13	Do concluding reports on investigations	8	8	Yes this is a routine part of an

	include a specific section on identified policy and systems weaknesses that allowed the fraud and corruption to take place?			investigation report. <i>This is done in conjunction with both internal and external audits</i>
4.14	Is there a system for considering and prioritizing action to remove these identified weaknesses?	7	9	Report would be issued to the responsible manager / Service Unit Head and a response would be expected to identify the actions to be taken. <i>In conjunction with audit</i>
4.15	Are there effective 'whistleblowing' arrangements in place?	7	7	Policy and procedures are in place. Publicity in 2006 through the link up article. No referrals in 2006. <i>Policy is re-affirmed through awareness training</i>
4.16	Are analytical intelligence techniques used to identify potential fraud and corruption?	3	5	Routine budget monitoring and analytical review only. <i>Available but due to current caseload not able to take advantage at this time</i>
4.17	Are there effective arrangements for collating, sharing and analysing intelligence?	1	8	No <i>Through DWP's matching service</i>
4.18	Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?	7	10	Usually a referral is made but may not be direct. For example referral may be through Personnel during consideration of a disciplinary investigation. <i>Established procedure in place</i>
4.19	Are arrangements in place to ensure that identified potential cases are promptly and appropriately investigated?	7	8	Protocol for investigation sets out responsibilities for prompt investigation etc. <i>Current best practice identifies this as a monitored requirement</i>
4.20	Are proactive exercises undertaken in key areas of fraud risk or known systems weaknesses?	7	5	Fraud risk is considered as part of the audit planning process. <i>Due to restrictions no exercises are in</i>

				<i>place but will aim to undertake before end of financial year</i>
	Investigation			
4.21	Is the organisation's investigation work effective?	6	8	Limited investigation carried out corporately. Effectiveness is measured as part of the national response
4.22	Is it carried out in accordance with clear guidance?	6	10	Response plan in draft Follows guidance procedures laid in legislation
4.23	Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?	7	9	Set out in investigation plan. Investigators meet current requirements
4.24	Are referrals handled and investigations undertaken in a timely manner?	8	8	Prompt responses are made. Set guidelines are followed
4.25	Does the organisation have arrangements in place for assessing the effectiveness of investigations?	3	10	Management review only. No peer review undertaken either internally or externally. Investigation are assessed
	Sanctions			
4.26	Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?	8	8	Sanctions for corporate fraud would be through the disciplinary process or by referral to the police for action. Counter fraud strategy refers to both as does Fraud Response Plan. As above
4.27	Are all possible sanctions – disciplinary / regulatory, civil and criminal - considered?	6	8	Evidence lacking as low level of investigations. Decision making process takes into account all possible actions
4.28	Does the consideration of appropriate sanctions take place at the end of the investigation when all the evidence is available?	5	10	Again difficult to answer as a low level of investigations. Decision are made only when this pint is reached
4.29	Does the organisation monitor the extent to	5	5	See above.

	which the application of sanctions is successful?			No real need to undertake this has arisen
	Redress			
4.30	Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?	7	8	Yes included in Counter Fraud Strategy Separate overpayment policy
4.31	Is the organisation effective in recovering any losses incurred to fraud and corruption?	5	7	Recovery not attempted in practice. Available recovery techniques are utilised
4.32	Does the organisation use the criminal and civil law to the full in recovering losses?	5	6	Recovery not attempted in practice. Use of all options considered with most cost effective option utilised
4.33	Does the organisation monitor proceedings for the recovery of losses?	5	8	Recovery not attempted in practice. Specialist officer in place
4.34	What is the organisation's successful recovery rate?	5	8	Recovery not attempted in practice. Meeting required minimum standard
	OVERALL SCORE for section 4	181/340	254/340	
Defining Success				
5.1	Are there clear outcomes described for work to counter fraud and corruption?	5	7	No specific outcomes described apart from work undertaken as part of the Audit Plan. Centrally imposed outcomes
5.2	Do the desired outcomes relate to the actual sums lost to fraud and corruption?	1	1	No specific outcomes described. No real way to confirm
	OVERALL SCORE for section 5	6/20	8/20	
	OVERALL SCORE	305/560	432/560	
		54%	77%	