

Subject: Fighting Fraud Locally – Best Practice Checklist

Date of Meeting: 25th September 2012

Report of: Director of Finance

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Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The purpose of this report is to inform Members of a review carried out to measure the Council against a best practice checklist for an effective counter fraud culture.
- 1.2 The best practice checklist for local authorities was provided with the recently published report, "Fighting Fraud Locally - The Local Government Fraud Strategy".
- 1.3 The Audit & Standards Committee has a responsibility for reviewing the assurance framework for the Council which includes counter fraud work.

2. RECOMMENDATION:

It is recommended that the Audit & Standards Committee note the contents of the review against the best practice checklist at Appendix 1 and the actions planned.

3. FIGHTING FRAUD LOCALLY – THE LOCAL GOVERNMENT FRAUD STRATEGY

- 3.1 In April 2012 following ministerial approval, The National Fraud Authority published a report, "Fighting Fraud Locally – The Local Government Fraud Strategy" which estimates the cost of fraud to local government to be approximately £2.2 billion a year.

3.2 The strategy was developed by local government counter fraud practitioners including the council's Head of Audit & Business Risk. It has three key elements:

- **Acknowledge** - Acknowledging and understanding fraud risks
- **Prevent** - Preventing and detecting more fraud
- **Pursue** – Being stronger in punishing fraud and recovering losses

3.3 It concludes that by following best practice recommendations local government will be better able to protect itself from fraud and have in place a more effective fraud response. Further, that the financial savings could be better used for local services.

4. BACKGROUND INFORMATION

4.1 A core deliverable in the Internal Audit Plan for 2012-13 is to provide an effective Corporate Counter Fraud Service, in accordance with the Council's Counter Fraud Strategy including both reactive and proactive coverage to mitigate the impact of fraud and consequential financial loss to the Council.

4.2 Audit & Business Risk are responsible within the Council for Corporate Counter Fraud and will continue to review and develop the robustness of the Council's arrangements. Audit & Business Risk work closely both internally and externally with bodies such as the Police, Audit Commission and National Fraud Authority.

4.3 The Audit & Business Risk Unit are also responsible for the National Anti Fraud Network (NAFN) UK South Team. This, together with the UK North Team based at Tameside Metropolitan Council, provides a fraud data and intelligence service to 353 UK public sector organisations, principally local authorities (337) but also Housing Associations, NHS Organisations and Universities. NAFN is considered to be integral to the delivery of Fighting Fraud Locally.

5. FINDINGS OF THE REVIEW

Assessment against the Fighting Fraud Locally Checklist of recommended best practice

5.1 The full comparison to the Fighting Fraud Locally Checklist of best practice recommendations is contained in Appendix 1 to this report. This has been summarised as:

- Full Compliance 24
- Partial Compliance 8
- Non Compliance 2

5.2 Where non or partial compliance exists there is not considered to be any significant fraud risk to the Council. The area of non compliance relates to the Council not having a separate Fraud Response Plan. However, the principles are currently included to a large extent in the Council's Counter Fraud Strategy.

5.3 Audit & Business Risk will be carrying out the necessary actions during 2012/13 to achieve full compliance with the checklist.

6. FINANCIAL & OTHER IMPLICATIONS:

6.1 Financial Implications:

An effective counter fraud culture assists in minimising potential or actual financial losses attributable to fraud and corruption. The actions planned can be implemented within existing resources.

Anne Silley
Head of Business Engagement
Financial Services

14 September 2012

6.2 Legal Implications:

There are no direct legal implications arising from this report but individual actions to comply with the best practice checklist may require legal support and advice.

Oliver Dixon
Acting Senior Lawyer

12 September 2012

6.3 Equalities Implications:

There are no equalities implications arising directly from this report.

6.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

6.5 Crime & Disorder Implications:

Fraud is a crime and can lead to financial loss and reputational loss to the Council

6.6 Risk and Opportunity Management Implications:

The Risk and Opportunity approach by the Council considers the risk of fraud and corruption.

6.6 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Appendices:

1. Fighting Fraud Locally – Assessment against Best Practice Checklist

Background Documents

1. Internal Audit Strategy and Annual Audit Plan 2012/12.
2. Protecting the Public Purse 2011
3. Fighting Fraud Locally – The Local Government Fraud Strategy (April 2012)

Fighting Fraud Locally – Assessment against Best Practice Checklist

Ref	FFL Recommended Best Practice	Yes	No	Partial/In progress	Comments	Actions for improvement
1	The Council has made a proper assessment of its fraud and corruption risks and has an action plan to deal with them and regularly reports this to the senior board and its members.	√			There is an on-going assessment of the Council's fraud and corruption risks. The Internal Audit Strategy and Annual Audit Plan 2012-13 contains a Counter Fraud Programme Section which outlines the planned programme of counter fraud work for 2012/13. A report detailing the key outcomes of the counter fraud work for 2012/13 will be presented to the Audit & Standards Committee in early 2013/14.	-.
2	The Council has undertaken an assessment against the risks in Protecting the Public Purse and has also undertaken horizon scanning of future potential fraud risks.	√			There is an on-going review for future potential fraud risks and there is a procedure whereby the Annual Audit Plan can be amended to reflect these, if required. An assessment was undertaken against the risks in the latest Protecting the Public Purse Report for 2011.	A further assessment against the risks contained in Protecting the Public Purse 2012 when the document is published in December 2012

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3	There is an annual report to the Audit Committee or equivalent detailing an assessment against the Local Government Strategy Fighting Fraud Locally and the checklist.	√			Fighting Fraud Locally has only recently been published so this is the first opportunity for a report to be submitted detailing an assessment against the Local Government Fraud Strategy and the checklist. This will in future be incorporated in an Annual Fraud Report to be submitted to the Strategic Leadership Team, Corporate Management Team and Audit & Standards Committee.	To be included in an Annual Fraud Report
4	There is a counter fraud and corruption strategy applying to all aspects of the Council's business which has been communicated throughout the Council and this has been acknowledged by those charged with governance.	√			Counter Fraud Strategy maintained. Last updated and presented to Audit & Standards Committee in April 2012 and approved by Full Council in June 2012. There are however further opportunities for communication across the Council.	Counter fraud strategy to be communicated throughout the Council.

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5	The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	√			The Council's Financial Regulations and Standard Financial Procedures that are available on The Wave for all staff to view have been designed to promote and ensure probity and propriety in the conduct of its business. The Council also has a number of other policies such as the Code of Conduct for Employees that are designed to promote proper conduct.	-.
6	The risk of fraud and corruption is specifically considered in the Council's overall risk management process.	√			Fraud is a risk management category and is therefore considered as one of the "prompts" when conducting risk identification.	-.
7	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across Departments and this is reported upon to Committee.			√	Although no formal process exists, there is ad hoc consultation with lead officers for counter fraud. There is however considered to be scope for improvement to formalise the process so fraud risk assessments are carried out on appropriate policies, strategies and initiatives.	A process is to be implemented whereby counter fraud staff are consulted where appropriate to fraud-proof new policies, strategies and initiatives.

Ref	FFL Recommended Best Practice	Yes	No	Partial/In progress	Comments	Actions for improvement
8	The Council has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring this is effective and this is reported to committee.	√			<p>The Internal Audit Strategy and Annual Audit Plan 2012-13 includes a Counter Fraud Programme detailing planned reactive and proactive counter fraud work. Outcomes are currently reported to committee as part of the Head of Audit & Business Risk's Annual Internal Audit Report and periodic progress reports.</p> <p>Other arrangements include whistleblowing procedures and confidential reporting of allegations.</p>	A dedicated Annual Fraud Report is to be produced for 2012/13 and ongoing.
9	<p>The Council has put in place arrangements for monitoring compliance with standards of conduct across the Council covering:</p> <ul style="list-style-type: none"> • codes of conduct including behaviour for counter fraud, anti-bribery and corruption • register of interests • register of gifts and hospitality 	√			Whilst the Council has in place arrangements, there is an issue over effective communication to and awareness of staff to ensure full compliance.	To communicate and raise awareness of the standards of conduct and the need to comply.

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10	The Council undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking checks to prevent potentially dishonest employees from being appointed.			√	<p>Staff vetting prior to appointment is currently limited to principally Criminal Records Bureau (CRB) checks and basic reference checks. This is in common with most local authorities.</p> <p>We are currently examining more enhanced checks such as rights to work, credit reference agency, employment history and references received.</p>	Liaising with Human Resources to introduce enhanced recruitment vetting where appropriate and to mitigate risks.
11	Members of staff are aware of the need to make appropriate disclosure of gifts, hospitality and business. This is checked by auditors and reported to Committee.	√			See 9 above.	-.
12	There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.	√			The Counter Fraud Programme is part of the Annual Internal Audit Plan. This is led by qualified and experienced staff.	On-going process of raising the profile of the counter fraud work being carried out across the Council.

Ref	FFL Recommended Best Practice	Yes	No	Partial/In progress	Comments	Actions for improvement
13	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.			√	Successful cases of housing benefit fraud are often publicised. Currently there are few prosecutions for non-benefit related fraud and when they do take place they are not always publicised.	Successful prosecutions to be routinely publicised in order to raise awareness and to send a clear message out to staff and members of the public that such behaviour is not tolerated.

Ref	FFL Recommended Best Practice	Yes	No	Partial/In progress	Comments	Actions for improvement
14	There is an independent Whistleblowing Policy which has been measured against the BSI, which is monitored for take up and it can be shown that suspicions have been acted upon without internal pressure.	√			<p>The Council has a Whistleblowing Policy which is regularly reviewed. The last review and update made comparison against BSI to ensure complied with recommended best practice.</p> <p>The Council also subscribes to Public Concern at Work, an independent charity that provides a route for those raising concerns.</p> <p>In common with many local authorities, there are still very few concerns raised under whistleblowing. Previous work has been undertaken by HR and Audit & Business Risk to raise awareness.</p>	Review of whistleblowing arrangements and actions that can be taken to further raise awareness.

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15	Contractors and third parties sign up to the Whistleblowing Policy and there is evidence of this. There is no evidence of discrimination for those who whistleblow.	√			<p>For all contracts that the Corporate Procurement Team deal with they ensure that third parties sign up to the obligation to read and familiarise themselves with the Whistleblowing policy.</p> <p>Contractual clauses relating to whistleblowing are contained in both the short form and long form terms and conditions with regard to this. These are the standard terms that form part of any invitation to tender documents issues by Corporate Procurement. The terms and conditions are also available on the Wave for contract officers to use and Corporate Procurement would direct contract officers towards them in the first instance (and if appropriate).</p>	-.

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16	Fraud resources are assessed and are adequately resourced.			√	<p>Fraud resources are assessed as part of the annual audit planning process and agreed with the Director of Finance (S151 Officer).</p> <p>It is acknowledged that greater fraud resources are needed but there are currently considerable financial constraints on the Council.</p> <p>The Government are currently considering financial incentives for local authorities in tackling fraud and this could result in self funding of Counter Fraud Teams within local authorities. Audit & Business Risk are introducing effective systems to capture the information necessary to maximise any potential financial rewards.</p> <p>The Head of Audit & Business Risk is currently restructuring corporate counter fraud to provide greater resources.</p>	Restructuring of corporate fraud.

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17	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the Council's business and includes activities undertaken by Contractors and third parties or voluntary sector activities.	√			The Counter Fraud Programme forms part of the Internal Audit Strategy and Annual Audit Plan. This is based on an assessment of fraud risks and includes both reactive and proactive fraud work.	-.
18	Statistics are kept and reported by the Fraud Team which cover all areas of activity and outcomes, benchmarking where appropriate.			√	<p>Statistics are maintained and reported as part of the Head of Audit & Business Risk's Annual Internal Audit Report and periodic progress reports.</p> <p>Although some comparison is made there is currently no formal benchmarking. A service is being offered by CIPFA.</p>	To periodically benchmark fraud statistics using the CIPFA Service.

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19	Fraud Officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	√			The lead for corporate fraud and other members of staff in Audit & Business Risk are authorised to enter into, at all reasonable times, any Council premises or land, to have access to all records, documents and correspondence, and to require and receive explanations as are necessary.	-.
20	There is a programme to publicise fraud cases internally and externally which is positive and endorsed by the Council's Communication Team.			√	Although Housing Benefit Fraud Cases are publicised there is currently no programme in place to publicise fraud cases internally and externally which is positive and endorsed by the Council's Communication Team.	A programme to publicise fraud cases internally and externally to be introduced in consultation with the Council's Communications Team.
21	All allegations of fraud and corruption are risk assessed.	√			All allegations of fraud and corruption are risk assessed and referrals are passed to other areas of the Council where appropriate. There is considered to be an opportunity to further refine the risk assessment and other models are currently being reviewed.	Review of fraud risk assessment model and amend as appropriate.

Ref	FFL Recommended Best Practice	Yes	No	Partial/In progress	Comments	Actions for improvement
22	The written fraud response plan covers all areas of counter fraud work: prevention, detection, deterrence, investigation, sanctions and redress.		√		There is currently no Fraud Response Plan for the Council. This is however to a large extent integrated into the Counter Fraud Strategy in common with a large number of local authorities.	To produce a separate Fraud Response Plan for the Council. To be approved by the Audit & Standards Committee.
23	The fraud response plan is linked to the Audit Plan and is communicated to senior management and members.		√		See 22 above.	-.
24	Asset recovery and civil recovery is considered in all cases and is linked to a written sanctions policy.			√	There is currently no written sanctions policy but asset recovery and civil recovery is considered in all cases.	A sanctions policy is to be written and introduced.
25	There is a zero tolerance approach to fraud and corruption that is reported to committee.	√			The Council has adopted a zero tolerance approach to fraud. This is communicated in a number of documents including the Counter Fraud Strategy.	-.
26	There is a programme of proactive counter fraud work which covers risks identified in assessment.	√			See 17 above.	-.

Ref	FFL Recommended Best Practice	Yes	No	Partial/In progress	Comments	Actions for improvement
27	The Fraud Team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.	√			There is fraud liaison and intelligence exchange with a number of outside bodies which includes Sussex Police, UK Borders Agency and other local authorities.	-.
28	The Council shares data across its own departments and between other enforcement agencies.	√			Data is shared within the constraints of current legislation (e.g. Data Protection Act). The Government is considering relaxing constraints for greater sharing of data to combat fraud.	
29	Prevention measures and projects are undertaken using data analytics where possible.			√	Data analytics are used but still limited and there is an opportunity for greater use. Audit & Business Risk are reviewing this at present both using internal and external resources.	Greater use of data analytics in proactive investigations of fraud.

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30	The Council takes part in the National Fraud Initiative and promptly takes action.	√			The Council continues to participate in the National Fraud Initiative and takes effective action.	
31	There are professionally trained staff for counter fraud work trained by professionally accredited trainers using the Counter Fraud Accreditation Board. If other staff undertakes counter fraud work they must be trained in this area.	√			<p>The Lead Officer for corporate counter fraud is professionally qualified in counter fraud.</p> <p>Staff within the Housing Benefits Fraud Team are PINS trained.</p> <p>Other internal audit staff receive externally provided counter fraud training to achieve a competency level.</p>	-.
32	The Counter Fraud Team has adequate knowledge in all areas of the Council or is trained in the areas.	√			<p>There is currently no separate Counter Fraud Team but this is part of Audit & Business Risk.</p> <p>All Audit & Business Risk staff are considered to have adequate knowledge of the Council.</p>	-.

Ref	FFL Recommended Best Practice	Yes	No	Partial/In progress	Comments	Actions for improvement
33	<p>The Counter Fraud Team has access (via partnership/other Local Authorities/or funds to buy in) where appropriate to specialist staff for:</p> <ul style="list-style-type: none"> • Surveillance • Computer Forensics • Asset recovery • Financial Investigations 	√			<p>Audit & Business Risk have sufficient access to specialist resources and funding as may be required.</p> <p>No formal arrangements exist with other local authorities.</p>	Review the feasibility of partnership arrangements with other local authorities for specialist services.
34	Weaknesses revealed by instances of proven fraud and corruption are looked at and fed back to Departments to fraud proof systems.	√			Control weaknesses are fed back to managers where appropriate. Outcomes are also used to inform internal audit planning where for example controls are considered to be weak.	-.

