

## **Audit Committee**

**13 March 2008**



## **Fraud and Corruption**

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### **Report of the Head of Internal Audit and Risk Management**

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#### **Purpose of the report**

1. The purpose of this progress report is to advise Members of the Audit Committee of the work being undertaken within the Authority in seeking to identify and control fraud and corruption.

#### **Background**

2. Public accountability, a reputation for honesty and the exposure of misconduct are key features of the Council's approach to combating potential fraud and corruption from within and outside the Authority.
3. Fraud has been formally defined by the Audit Commission as "the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain"
4. The Fraud Act 2006 describes the following 3 methods of committing fraud
  - Fraud by misrepresentation
  - Fraud by failing to disclose information
  - Fraud by abuse of position
5. Corruption is defined as "the offering, giving, soliciting or acceptance of any inducement or reward which may improperly influence the action of any person"

#### **Administering the Council's responsibilities**

6. In administering its responsibilities the Council has in place a framework of written procedures and controls to help ensure the highest standards of conduct are practiced by its Members, employees and those organisations and individuals it transacts with.
7. Central to these are an adopted Constitution incorporating responsibilities for decision making and rules of procedure, detailed Financial Regulations, Member and Officer Codes of Conduct, an Anti-Fraud and Corruption Policy, Fraud Investigation Plan, Fraud Response Plan, Whistleblowing Policy (Confidential Reporting Code), Anti-Money Laundering Policy, Regulation of Investigatory Powers Act (RIPA) 2000 Policy and IT Security Policy.

8. Whilst the thrust of the Council's anti-fraud and corruption activities is centred on the work of Internal Audit, managers within all Services have an important role to play in ensuring the importance of soundly designed systems which meet key control objectives and minimise the opportunity for fraud and corruption to occur. For major systems, Internal Audit may look to have an involvement in developing controls pre-implementation.
9. In addition to the various policies outlined in paragraph 7 above, Internal Audit pro-actively seeks to identify potential irregularity through membership of the National Anti-Fraud Network<sup>1</sup> (NAFN) and directly through participation within the National Fraud Initiative<sup>2</sup> (NFI).
10. Publication of all policies on the Council's website together with periodic bulletins highlighting the nature of Fraud and Corruption are further ways in which the Council seeks to be pro-active in this area.
11. Internal Audit will look to advise / work with the Council's Monitoring Officer and with investigating Officers from Services in determining the relevant course of action to be pursued, including where it is considered appropriate to involve Officers from the Durham Constabulary. To manage this process effectively, Brian Temple, one of Internal Audit's Principal Auditors has successfully completed CIPFA's Investigative Practices Qualification.

### **Reporting on key activities**

12. Internal Audit has committed 66.5 days in assisting / advising Service Managers conducting a range of investigations over the period April 07 – February 2008. This figure includes 29 days activity relating to the 2007/08 NFI review, 7.5 days advice and guidance and 30 days on specific targeted reviews.
13. All occurrences of fraud and corruption in excess of £10,000 must be reported the Audit Commission. It is pleasing to report that thus far during 2007/08, none of the incidents identified have exceeded this reportable amount.

### **Future Development**

14. Internal Audit is always seeking to increase awareness of fraud and corruption matters within the Council. In looking to further strengthen the Council's arrangements in this area we intend to review the Council's previously identified policies with the aim of ensuring that they are in accordance with the most recent Legislative requirements and best practice available.

### **Recommendations**

15. Members are requested to note the progress made in relation to the Authority's Anti-fraud and corruption arrangements.

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1. The National Anti-Fraud Network was established in September 1995 to counter the emergence of fraud nation-wide, its focus is to progress all aspects of anti-fraud work and stimulate co-operation between local authorities. It provides an instant circulation service from one local authority to all local authorities with a view to obtaining further information and locating fraudulent activities. It provides regular bulletins containing intelligence on actual fraud cases and maintains a national fraud database for access by participating authorities.

2. The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise that helps detect fraudulent and erroneous payments from the public purse. It began in 1996 and is carried out every two years. The Audit Commission has designated the NFI to be part of the statutory external audit and all local government bodies are legally obliged to provide the relevant data, which is required under Section 6 of the Audit Commission Act 1998.

**Appendix 1: Implications**

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**Local Government Reorganisation**

*(Does the decision impact upon a future Unitary Council?)*

No

***Finance***

There are no direct financial implications arising for the Council as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

***Staffing***

None

***Equality and Diversity***

None

***Accommodation***

None

***Crime and disorder***

None

***Sustainability***

None

***Human rights***

None

***Localities and Rurality***

None

***Young people***

None

***Consultation***

None

***Health***

None