

## Audit Committee



06 March 2009

### 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".

### The Council's responsibilities in relation to Fraud and Corruption

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, Contract Procedure Rules, Financial Regulations, Member and Officer Codes of Conduct and a Whistleblowing Policy (Confidential Reporting Code).
8. The Council has also approved a number of other policies in relation to the prevention, detection and investigation of fraud as follows:

- Anti-Fraud & Corruption Policy
  - Fraud Investigation Plan
  - Anti-Money Laundering Policy
  - Regulation of Investigatory Powers Act (RIPA) 2000 Policy
  - IT Security Policy
  - Disciplinary Procedures
9. Internal Audit has a key role in providing assurance that Council procedures and policies are adhered to and in helping to detect fraud through its testing. All Internal Audit staff are aware to the risk of fraud and corruption and help prevent this through evaluating the effectiveness of internal controls and recommending improvements to management to help manage risk.
  10. It is the responsibility of the Section 151 Officer to develop, maintain and review the Council's Anti-Fraud & Corruption Policy. Chief Officers are responsible for promoting the Council's anti-fraud and corruption policy within their service areas and ensuring that all suspected irregularities are reported to the Head of Internal Audit.
  11. It is the responsibility of Chief Officers to establish sound systems of internal control in its arrangements for planning, appraising, authorising and controlling operations within their service areas. In doing so Chief Officers must be aware of the risk of fraud and corruption within their areas of operation and should seek advice from internal Audit as considered necessary. Where possible this advice should be sought during the development of systems so that Internal Audit can be pro-active in helping management establish appropriate controls pre-implementation, thereby increasing their effectiveness and minimising risk.
  12. Internal Audit also supports management pro-actively in the prevention and identification of 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).
  13. 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.
  14. As set out in the Council's Fraud Response Plan and Fraud Investigation Plan, 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. To maintain his continuous professional development in this area he attends seminars and courses as appropriate, on behalf of the Head of Internal Audit, to ensure that

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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.

the service keeps pace with best practice developments and to learn from the experience of others.

### **Reporting on key activities**

15. Internal Audit has committed 54 days in assisting / advising Service Managers conducting a range of investigations over the period April 2008 – February 2009. This figure includes 28 days activity relating to the 2008/09 NFI review.
16. All occurrences of fraud and corruption in excess of £10,000 must be reported to the Audit Commission. It is pleasing to report that thus far during 2008/09, none of the incidents identified have exceeded this reportable amount.

### **Future Development**

17. In preparation for LGR, the existing procedures and policies referred to above are being revised, either as part of the major review of the Council's Constitution or through separate reviews by the responsible officer. In addition new policies are being developed to reflect the risk of fraud and corruption in service areas which are new to the Council, notably Council Tax and Housing Benefits. The need for a separate policy relating to benefit fraud reflects the Council's approach of having a specialist Housing Benefit Fraud Unit which will operate within the Revenues and Benefits Service, in accordance with recognised best practice.
18. Internal Audit is currently reviewing the Council's Anti Fraud and Corruption Policy and it is proposed that this will be replaced with a Counter Fraud and Corruption Strategy that will provide the Council's framework for the prevention, deterrence, detection and investigation of fraud and corruption. This will be cross-referenced to all of the Council's revised supporting policies and procedures to provide a coherent approach.
19. It has also been recognised that the key to the effectiveness of the Council's procedures and policies is the need to maximise awareness to the risk of fraud and corruption, which is inevitably increased at a time of major change. Time will therefore be included in next year's Internal Audit Plan to work with the new service heads to help improve and promote awareness across the new Council, its partners, stakeholders and the public.

### **Recommendations**

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

Background Papers - **Audit Files & Working Papers**

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## **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 broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

#### ***Staffing***

There is an ongoing training requirement to ensure the knowledge of the Principal Auditor with responsibilities in this area is up to date.

#### ***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