



Committee and Date

Audit Committee

18th September 2014

9:30am

INTERNAL AUDIT COUNTER FRAUD MANAGEMENT UPDATE

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1 Summary

This report provides members with an update on Internal Audit's counter fraud activities and current initiatives. These include:

- The Chartered Institute of Public Finance Accountancy (CIPFA's) Code of Practice on managing the risk of fraud and corruption.
- National Fraud Initiative (NFI) the next steps.
- An update on our counter fraud checklist and impact on the current years counter fraud activity.
- Money Laundering Procedure updates.

Internal Audit continue to stay up to date with their counter fraud activity, contributing to consultation requests from CIPFA on the proposed new Code of Practice; preparing to submit data for the NFI exercise, updating the Money Laundering procedures to reflect structural changes within the Council prior to reminding all staff of their responsibilities; and ensuring that the Internal Audit plan provides for focused counter fraud activity following a risk assessment and comparisons against best practice.

This active participation remains a positive and integral part of the Council's commitment to the detection and prevention of fraud. Further updates on these activities will be provided to the Committee as part of Internal Audit's performance reports.

2 Recommendations

Members are asked to consider and endorse with appropriate comment, the content of this report and how the work contributes to the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.

REPORT

3 Risk Assessment and Opportunities Appraisal

- 3.1 The Council has in place an effective Counter Fraud, Bribery and Anti-Corruption Strategy. The Council proactively encourages the identification, prevention,

detection and taking of appropriate action in response to fraud and irregularities and in doing so mitigates these risks.

- 3.2 Participation in counter fraud activities and compliance with best practice helps to strengthen the Council's approach and management of these risks. Working with partners, as demonstrated by the NFI, successfully illustrates the benefit of joined-up working and co-operation between all involved. The national sharing of data allows a number of organisations to effectively identify areas of potential fraud or error, reducing the future risk of such fraud or errors going undetected.
- 3.3 Counter fraud activity and the investigation of any issues ensures that where appropriate any monies lost as a result of identified frauds or errors are recovered and any weaknesses in procedures are addressed to improve the internal control environment and help prevent future fraud or error.
- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4 Financial Implications

- 4.1 Delivery of the counter fraud work will be met from existing Internal Audit resources.

5 Background

The CIPFA's Code of Practice on managing the risk of fraud and corruption

- 5.1 CIPFA has drafted a Code of Practice on managing the risk of fraud and corruption and has invited comments from interested parties. The code of practice sets out a number of principles and contains five key elements.

To:

- Acknowledge the responsibility of the governing body for countering fraud and corruption;
- Identify the fraud and corruption risks;
- Develop an appropriate counter fraud and corruption strategy;
- Provide resources to implement the strategy; and
- Take action in response to fraud and corruption.

- 5.2 The Code aims to establish common principles for managing the risk of fraud and corruption. The principles provide a set of standards which can be applied in all public bodies, regardless of sector or size. They emphasise the importance of managing the risks of fraud and corruption in order to secure good governance and financial stewardship.
- 5.3 CIPFA has developed the principles working with counter fraud experts in the public services and have sought views from those in counter fraud and audit roles. As part of the Midland Chief Auditors Group and the County Chief Auditors Network, officers from Shropshire have fed into this consultation and await the

refined version of the code. Copies of the draft code can be found at: <http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-counter-fraud>.

- 5.4 Officers will bring a future report to Members once the final code is published.

National Fraud Initiative (NFI) the next steps

- 5.5 The NFI is an exercise that matches electronic data held within and between public and private sector bodies to prevent and detect fraud. The provision of data for the purposes of NFI is a requirement of the Audit Commission Act 1998 and the output to date has been used by the Audit Commission to help them assess the arrangements that the Council has in place to prevent and detect fraud in accordance with the Code of Audit Practice.
- 5.6 The Council is required by law to participate in the NFI by providing a range of datasets to the Audit Commission for matching. On receipt of the results the Council then has responsibility to follow up and investigate the matches, and identify fraud, overpayment and error. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle. The Council will be submitting data in the present year and matches for review are expected early 2015, members will be informed of the outcomes in future reports.
- 5.7 It should be noted that the NFI will continue following the abolition of the Audit Commission. The Local Audit and Accountability Bill 2013-14 makes provision for the future arrangements for the NFI. The bill transfers the Commission's current data-matching powers to the Secretary of State, who will delegate their operational management to the Cabinet Office's Efficiency and Reform Group when the Audit Commission closes in 2015.

An update on our counter fraud plans

- 5.8 Members were informed about the teams approach to counter fraud plans in a report to Audit Committee in September 2012. Areas focused on in 2013/14 included looking at the potential for qualification fraud, high overtime and mileage claims and use of pool cars. Outcomes from these have been reported in performance reports to subsequent committees, where findings identified the need for general control improvements and as part of the Fraud and Special Investigation updates where the cases were specific.
- 5.9 In identifying areas for review in the 2014/15 Internal Audit Plan, our approach was informed by assessments against the Audit Commission's Fighting Fraud checklist that was provided as part of their Protecting the Public Purse review of 2013; an update of a previous review of the National Fraud Authority's¹ Fighting Fraud Locally, Counter Fraud Checklist and a refresh of the Council's fraud risk assessment.

¹ The NFA closed in March 2014.

5.10 Counter fraud work will include:

- Reviewing the teams approach to housing tenancy fraud.
- Updating and communicating changes to money laundering processes.
- Taking part in the NFI.
- Completion of the Internal Audit plan and following up of recommendations to improve system controls and reduce the risk of fraud and losses.
- Conducting investigations where issues are raised; report on outcomes and produce management reports to address future control issues.
- Review the coverage on the web site to ensure it is fit for purpose.
- Select on a rolling basis, from the following areas topics for detailed review:
 - § Direct payments
 - § Council tax discounts
 - § New starters
 - § False references
 - § High overtime claims
 - § Travel and subsistence
 - § Fuel claims
 - § School frauds
 - § Right to buy.

5.11 The plan has an allocation of 35 days for counter fraud work, 20 days for NFI activity and a contingency of 200 days for investigations.

Money Laundering Procedure updates

5.12 Money laundering is the conversion of money obtained through illegal activity such as drug dealing or racketeering into “clean” money. This is achieved by processing cash through the financial system in order to hide its original source. It can then be used without suspicion by the criminals concerned. If the Council receives any income from any body or individual which was obtained illegally (i.e. as a result of a crime) we have a statutory duty to disclose this transaction confidentially to the National Crime Agency (NCA) otherwise we would be committing a criminal offence.

5.13 The Proceeds of Crime Act (POCA) 2002 and Money Laundering Regulations (MLR) 2003 which were extensively revised in 2007 were enacted to combat the laundering of monies obtained from the proceeds of crime. Under the legislation, money laundering is interpreted very widely and includes the processing, or in any way dealing with, or concealing, the proceeds of any crime. There is no minimum monetary value, therefore any crime, no matter how small, is subject to the legislation.

5.14 The Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007 place disclosure obligations on bodies in the “Regulated Sector” which require the establishment of internal procedures to prevent or money laundering. Whilst Local Authorities are not legally obliged to apply the provisions of the Money

Laundering Regulations 2007; as responsible public bodies, CIPFA recommend: “that they should employ policies and procedures which reflect the essence of the UK’s anti-terrorist financing and anti-money laundering regimes”

5.15 In addition, there is an expectation that whilst the regulations may not apply to the public sector, public bodies have a public duty to report suspicious transactions voluntarily and to that end should adopt an anti-money laundering policy and appropriate reporting procedures.

5.16 The existing policy and guidance have been reviewed and minor changes made to reflect changes in the:

- Money Laundering Reporting Officer (MLRO) and her deputies;
- Replacement of the Serious and Organised Crime Agency, SOCA with the National Crime Agency, NCA; and
- Officer titles following restructure since the procedure was last reported to Audit Committee in March 2010.

An update of the procedure appears as **Appendix A** with proposed changes **underlined and marked in bold** font.

Once the Audit Committee have approved the proposed changes a reminder of the procedures will be circulated to members and officers.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Audit Commission Act 1998

Local Audit and Accountability Bill 2013-14

Proceeds of Crime Act (POCA) 2002

Money Laundering Regulations (MLR) 2003, revised in 2007

CIPFA Guidance Note – Combating Financial Crime - further guidance on Anti-money Laundering for Public Service Organisations, CIPFA 2009.

CIPFA Code of Practice on managing the risk of fraud and corruption

Cabinet Member (Portfolio Holder) Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member All

Appendices Appendix A: **ANTI-MONEY LAUNDERING PROCEDURE**