

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	18/03/2010

FRAUD RISK MANAGEMENT

PURPOSE OF REPORT

1. To inform members of the outcome of a review recently conducted by the Risk Management Team, to proactively identify the potential exposure to the risk of fraud both corporately and within individual services.
2. To present an action plan which will be implemented to further strengthen the Council's arrangements for the prevention of fraud and corruption.

RECOMMENDATION

That members note the report.

EXECUTIVE SUMMARY OF REPORT

3. The Audit Commission and the Chartered Institute of Public Finance & Accountancy (CIPFA) have recently published revised guidelines on the measures which councils should have in place to maximise their efforts in preventing fraud and corruption in the conduct of their business.
4. These publications seek to test the adequacy and effectiveness of corporate level policies and procedures. We have conducted the relevant self assessments and the resulting actions are contained in the attached Appendix.
5. In addition we have reviewed implementation of the remaining service specific actions contained in the Councils Fraud & Corruption Risk Register.

REASONS FOR RECOMMENDATION(S)

6. The Audit Committee's terms of reference require it to oversee all aspects of governance including risk management. This report gives members the assurance that the Council is effectively managing its fraud risks by ensuring compliance with current best practice in fraud risk management and the National Fraud Strategy.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

7. There are no alternative options appropriate to this item.

CORPORATE PRIORITIES

8. This report relates to the following Strategic Objectives:

Strengthen Chorley's economic position in the central Lancashire sub region		Develop local solutions to climate change	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a great place to live	
Involving people in their Communities		Ensure Chorley is a consistently top performing organisation	✓

BACKGROUND

9. The Council has an excellent track record in preventing fraud and corruption and has experienced very few incidents in that regard. There is nevertheless a need to avoid complacency and remain vigilant by upholding best practice and taking the following new guidance on board:

- Protecting the Public Purse (Audit Commission)
- Managing the Risk of Fraud - "Red Book 2" (CIPFA)

10. These publications seek to test the adequacy and effectiveness of corporate level policies and procedures. We have conducted the relevant self assessments and the resulting actions are contained in the attached Appendix.

11. In addition we completed a follow up assessment of the effectiveness of the implementation of the remaining outstanding actions from the Fraud & Corruption Risk Register exercise undertaken in 2008.

12. The following paragraphs summarise the results of all 3 assessments

PROTECTING THE PUBLIC PURSE

13. This guidance document highlights the increased fraud risks and pressures facing public bodies as a direct result of the economic recession and contains a self assessment checklist which "those charged with governance" need to complete. We have therefore undertaken this assessment on behalf of the Audit Committee and the improvement actions emanating from the review are included in the Appendix.

CIPFA MANAGING THE RISK OF FRAUD - "RED BOOK 2"

14. This publication is widely regarded as the most authoritative source of guidance on countering fraud in the public sector and has been adopted as the accepted benchmark standard.

15. We completed an assessment against the good practice checklist covering 56 elements relating to the 5 key action areas of strategy, risk identification, culture, taking action and defining success.

16. No outright gaps were found however 6 areas of activity were identified across the board that present an opportunity to implement improvements to procedures in line with the good practice advice and actions have been developed to address them.

FRAUD & CORRUPTION RISK REGISTER

17. This was an innovative and proactive approach to managing fraud risk which we developed “in house” and undertook in 2008. It involved the completion of a comprehensive risk assessment exercise based on the CIPFA publication “Managing the Risk of Fraud”.
18. A number of potential risk issues were identified where it was agreed that preventative measures should be introduced and these were compiled into a corporate Fraud and Corruption Risk Register.
19. As part of this review we completed a follow up assessment of the effectiveness of the implementation of the remaining outstanding actions from the exercise. We found that out of the 36 actions agreed for implementation 15 remained outstanding or were still in the process of implementation. In each case we have agreed revised completion dates with the relevant service managers which are shown in the attached Appendix.

IMPLICATIONS OF REPORT

20. The Directorates with any outstanding residual actions stemming from the Fraud and Corruption Risk Register must now focus on implementing them within the revised timescales.
21. All actions from this review will now be monitored and reported in accordance with the Internal Audit procedures for the follow up of actions agreed with managers.

Garry Barclay
Head of Shared Assurance Services

Report Author	Ext	Date	Doc ID
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Background Papers			
Document	Date	File	Place of Inspection
Protecting the Public Purse	2009		
Managing the Risk of Fraud Red Book	2007	Risk Service Office	West Paddock, Leyland
Anti Fraud and Corruption Risk Register	2008		

Chorley Borough Council - Fraud Risk Management Review - Action Plan

APPENDIX

No	Area of Risk	Action Agreed	Responsible Officer	Date
Protecting the Public Purse (Audit Commission)				
1	Have we reviewed contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?	Contract letting procedures will be reviewed against the good practice guidance issued by the Office of Fair Trading.	Procurement Manager	June 2010
Managing the Risk of Fraud – Red Book 2 (CIPFA)				
2.0 Accurately identifying the Risks – Measuring Fraud and Corruption Losses				
2	1.6 – Has the strategy been agreed by those with political and executive authority for the organisation.	At the next revision of the AF&CS add a Foreword from the CE & Leader	Head of Assurance	September 2010
3	2.2 - Is the organisation seeking to identify accurately the nature and scale of losses to fraud and corruption, using a <ul style="list-style-type: none"> • 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? 	Review and update the AF&CS to reflect the requirements of the Fraud Act 2007	Head of Assurance	September 2010
3.0 Creating and Maintaining a Strong Culture – Having the Necessary Authority and Support				
Specialist Training and Accreditation				
4	3.4 - Are all those working to counter fraud and corruption professionally trained and accredited for their role?	Consideration to be given to a member of IA studying for the CIPFA Certificate in Investigative Practice Qualification	Head of Assurance	April 2010
5	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?	At next appraisal formalise arrangements by ensuring that PDP's include sufficient regular refresher courses.	Compliance Manager (Benefits)	April 2010
4.0 Taking Action to Tackle the Problem – Taking the Full Range of Action and Integrating Different Strands				
Culture, Deterrence and Prevention Framework				
6	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)?	Raise awareness of the AF&C Strategy with Officers and Members	Head of Assurance	September 2010

Deterrence				
7	<p>4.9 - Does the organisation have a clear programme of work to publicise the:</p> <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? 	Raise awareness of the AF&C Strategy with Officers and Members	Head of Assurance	September 2010

Chorley Council Fraud & Corruption Risk Register - Action Plan - Feb 2010

Rec No	Risk Reg No	Area of Risk	Priority	Action Agreed	Responsible Officer	Date
		Corporate ICT related risks				
1	44	Theft of ICT equipment and supplies	2	ICT stockroom – A stock control register will be implemented together with procedures for booking materials in and out and regular stock takes.	Head of Customer, ICT & Transactional Services	March 2010
			2	General - An inventory of all IT equipment located within each room will be introduced and signed off by each respective Director.	As above	March 2010
2	53	Unauthorised access/use of information and records due to - uncontrolled movement of unencrypted data	1	A Home working Policy incorporating suitable standards and guidance will be developed and implemented as part of the development of the Home Working project.	Head of Customer, ICT & Transactional Services & Head of Human	Policy to be developed at end of trial period in April 2010

			2	It is expected that the technology provided to Members will be reviewed as part of Scrutiny work for this year. The Council have adopted thin client technology to improve information security and it will be the preferred technology for elected Members.	Resources & OD As above	In progress completion due by September 2010
4	98/99	lack of monitoring information and unrestricted access leading to undisclosed/inappropriate private internet or excessive/inappropriate private e-mail use during office hours	1	The Internet and e-mail acceptable use policy will be revised and reissued.	Head of Customer, ICT & Transactional Services	Revised & due for issue in June 2010
5	100	Authorised staff may undertake the unauthorised export of official data/information	1	The new Microsoft contract includes software to provide 'Rights Management'. This information protection technology works with RMS-enabled applications to safeguard digital information from unauthorised use - both online and offline, inside and outside of the firewall. The product will be evaluated and recommendations to configure it appropriately developed and implemented	Head of Customer, ICT & Transactional Services	July 2010 subject to required MS Office Prof'nal'l roll out
		Funds and grants				
6	58	Theft/misappropriation from the Mayors Charity Bank Accounts due to poor control arrangements	2	Implement an annual independent reconciliation of income and expenditure. This control will be added to the closure of accounts timetable for 2009/10	Head of Financial Shared Services	Annually from June 2010
8	59	Theft/misappropriation from the Elections Bank Accounts(4) - European - Parliamentary - County - Municipal	2	Control and reconciliation arrangements will be revised to incorporate independent reconciliation by an individual not involved in the issue of payments.	Head of Governance	September 2010
		Employment and staffing matters				

11	43	Deception - breach of conditions of the car loan scheme due to a lack of the inspection of drivers documentation	2	Implement an annual check on documentation V5/Insurance/Driving Licence to confirm compliance with the scheme conditions.	Head of Financial Shared Services	Annually from March
12	86	Submission of fraudulent claims under the "Scheme for Financial Incentives To Recruitment"	2	The responsibility for ownership of the scheme will be clarified - the scheme and documentation will be revised and updated and the payment medium clarified	Head of Human Resources & OD	June 2010
		Control and use of corporate assets				
16	79	Sale of land transactions completed under seal by the Director of Corporate Governance where client instructions do not contain reference to the authority for disposal	2	Property Services management procedures under the Liberata Partnership are to be revised as part of the review of the Constitution.	Head of Governance	June 2010
17	63/64	Theft or misappropriation from "the Astley Hall collection" by internal or external source	1	Implement a comprehensive "artefacts database" in compliance with Museums Society standards and recommended software and implement a rolling program of stock reconciliation including independent verification.	Head of Leisure & N'Hoods	In progress complete by October 2010
		Control over vehicles and fuel				
20	68	Obtaining a pecuniary advantage from the disposal of obsolete vehicles, plant and equipment	2	A "Vehicle and Plant Disposal Policy" and procedures will be developed and implemented under the VFM Action Plan. This will now be incorporated in to the "Fleet Management Strategy" which is currently under development.	Head of Streetscene	June 2010
		Collection of miscellaneous income				
22	2	Non payment of private phone call (landline & mobile)/printing charges due to lack of effective collection mechanisms	1	Effective telephone monitoring reports are available in the new telephone system to be implemented in June. It has been agreed that monitoring will be carried out on an annual basis.	Head of Customer, ICT & Transactional	June 2010 following configuration of reports

			1	An annual monitoring exercise will take place, the existence of monitoring will be highlighted during training sessions for the implementation of the new system and will be subject of a Team Brief item.	Services As Above	As Above
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PRIORITY 1	Agreed actions that are considered essential as they impact significantly on the Council's system of governance and internal control and may influence external inspection outcomes. A lack of timely implementation will be reported to the Audit Committee.
PRIORITY 2	Agreed actions that will significantly improve the level of control and will be monitored by Internal Audit. A lack of timely implementation may be reported to the Audit Committee.