

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation & Improvement)	Audit Committee	19/03/08

FRAUD & CORRUPTION RISK REGISTER

PURPOSE OF THE REPORT

- 1 To inform members of the outcome of an important review recently conducted by Internal Audit, to compile a corporate Fraud & Corruption Risk Register, which identifies and addresses specific fraud risks throughout the Council.

RECOMMENDATIONS

- 2 That the report is noted.

EXECUTIVE SUMMARY OF REPORT

- 3 This committee report summarises the attached Internal Audit report, which explains the reasons for and the process involved in compiling the Register.

CORPORATE PRIORITIES

- 4 The report relates to the following strategic objectives:

Put Chorley at the heart of regional economic development 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 good place to live	
Involving People in their Communities		Ensure Chorley is a performing Organisation	✓

BACKGROUND

- 5 Although the Council has experienced relatively few incidents of fraud in recent years, the Audit Commission is keen to ensure that all councils commit sufficient resources to this area. In their 2006 Use of Resources report the Commission recommended that the Council should "further develop proactive counter fraud and corruption work, determined by a formal risk assessment which is adequately resourced".
- 6 Our main response to this recommendation has been to work with Directors to compile a corporate Fraud & Corruption Risk Register, which identifies and addresses specific fraud risks in individual service areas.

- 7 Although the main purpose of the exercise was to address the Audit Commission's recommendations, it also enhances the Council's compliance with the CIPFA / SOLACE guidelines on governance in relation to probity and ethics and provides a more robust Anti-Fraud & Corruption Strategy.
- 8 The attached report explains the process involved in compiling of the Register and the resulting Action Plan, which is also attached.

SUMMARY OF RESULTS

- 9 The exercise established that a well developed anti fraud culture is already embedded within the Council. Of 117 potential fraud risks that were identified in the Council's operations, 92 were discounted because they present very low levels of risk, the existing controls are adequate or they are already being addressed by projects or other actions in progress.
- 10 However a limited controls assurance rating was awarded in acknowledgement of the fact that action is needed to further mitigate the remaining risks. These are a mix of corporate and directorate specific issues and are summarised in the attached report, together with a detailed Action Plan to address them.

IMPLICATIONS OF REPORT

- 11 The attached Internal Audit Report is currently being discussed with all the Directors concerned and detailed actions agreed with them to further mitigate the risks identified.

GARY HALL
 ASSISTANT CHIEF EXECUTIVE
 BUSINESS TRANSFORMATION & IMPROVEMENT

Background Papers			
Document	Date	File	Place of Inspection
Use of Resources Assessment 2006	2006	FINANCE	UNION ST OFFICES
Delivering Good Governance In Local Government CIPFA SOLACE	2007		
Report Author	Ext	Date	Doc ID
Garry Barclay Andy Armstrong	5468 5465	10/03/08	F&CRR.doc

Chorley Council

Internal Audit Report 14_07

Fraud & Corruption Risk Register



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ACTION PLAN

1	The Council takes the threat of fraud and corruption very seriously and has a constitutional commitment "not to tolerate fraud and corruption in the administration of its responsibilities whether from inside or outside the authority". This is underpinned by a formal Anti-Fraud & Corruption Strategy, which seeks to ensure that serious concerns are properly raised and addressed. It also sets out the Council's specific policies towards the prevention, detection, notification and investigation of fraud and corruption and summarises the responsibilities of members, managers and officers in this respect.
2	Although the Council has experienced relatively few incidents of fraud in recent years, the Audit Commission is keen to ensure that all councils commit sufficient resources to this area. In their 2006 Use of Resources report the Commission recommended that the Council should "further develop proactive counter fraud and corruption work, determined by a formal risk assessment which is adequately resourced".
3	In response to this an section of the Internal Audit Plan is now devoted to anti-fraud & corruption work. This includes: <ul style="list-style-type: none"> • Acting as the Council's local co-ordinator / contact for the National Fraud Initiative (NFI) data matching exercise; • Developing a suite of computerised interrogations of our own systems to identify any incidence of fraud or error; • Publishing regular fraud bulletins on the Loop to bring any current issues or scams to the attention of officers in order to raise their awareness of fraud.
4	Our main response to the Commission's recommendation however has been to work with Directors to compile a corporate Fraud & Corruption Risk Register, which identifies and addresses specific fraud risks in individual service areas.
5	This report explains the process involved in compiling of the Register and the resulting Action Plan, which is attached.

AUDIT APPROACH	
6	The best practice guidance set out in the CIPFA publication "Managing the Risk of Fraud" and the approach outlined in the HM Treasury Guidance for Managers "Managing Fraud Risk" were the main sources of reference to establish and categorise potential fraud risks.
7	Directors and other senior officers were interviewed to establish the extent to which the potential fraud risk could actually materialise within their spheres of operation.

IMPACT ON GOVERNANCE	
8	Although the main purpose of this exercise was to address the Audit Commission's Use of Resources recommendations, it will also enhance the Council's compliance with the CIPFA / SOLACE guidelines on governance in relation to probity and ethics.
9	Taking an internal perspective, this exercise also contributes to a more robust Anti-Fraud & Corruption Strategy.
MAIN CONCLUSIONS	

OVERALL AUDIT OPINION (*)

- 10 The Council is now required to include a statement in the annual accounts regarding the effectiveness of its overall system of governance. To facilitate this, Internal Audit reports contain an opinion as to the adequacy of the internal controls in each separate system / area reviewed. In our opinion, the number and nature of risks identified during this exercise and the totality of action required to mitigate them provide **Limited Assurance**

AUDIT OPINION RATINGS

Inadequate - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.

Limited - the Authority can place only limited reliance on the controls. Significant control issues need to be resolved.

Sound - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.

OVERVIEW

- 11 The exercise has established that a well developed anti fraud culture is already embedded within the Council and this is reflected in the systems and procedures implemented by management. The limited controls assurance rating awarded is in acknowledgement of the fact that additional action is needed to mitigate some significant risks that remain. Implementation of the recommendations from this exercise together with other planned follow up work will build on the foundations already in place and will develop and enhance corporate resilience against fraud further.
- 12 We also found that many of the potential risk factors considered during discussions with Directors did not present a real threat within the Directorates concerned or there was an array of mitigations and controls in place or in progress.

FRAUD AND CORRUPTION RISK REGISTER

- 14 The complete results of the exercise are recorded in the Fraud & Corruption Risk Register at the Appendix to the report. The key contents of the Register are explained as follows:

Fraud Category - the generic types of fraud risk set out in the prevailing guidance

Area of Risk - the detailed, potential fraud risks within each category

Mitigation / Controls - the measures already in place within the Council to reduce the likelihood and / or impact of the potential fraud risks

Risk Rating - taking the existing mitigation / controls into account, whether the level of risk remains high, medium or low (using the corporate risk matrix)

The remaining columns were only completed in respect of high / medium risks as no further action was considered necessary in respect of low risks

Exposures Identified - the potential impact on the Council's operations should the risks materialise

Recommendations - the action that should be taken to address the high / medium risks identified

Existing Action Planning Vehicles - where the high / medium risks identified are already being addressed by current projects, audit action plans or other actions in progress

Recommendation Number - where risks remain of high or medium exposure and no form of action is currently in progress to address them. These have been transposed to the attached Action Plan

RISKS REQUIRING FURTHER ACTION

15 117 potential fraud risks were identified in the Council's operations, 92 of which were discounted because they present very low levels of risk, the existing controls are adequate or they are already being addressed by projects or other actions in progress.

16 However 25 risks remain of medium or high exposure where further action is required to address them. These are a mix of corporate and directorate specific issues and are captured in the Action Plan below, together with recommendations, which will be discussed with the managers concerned. The remaining risks are summarised and prioritised as follows:

Corporate ICT related risks - including the safety of data during transit and mobile working, the use of internet and e-mail, the unauthorised use of data, official publications and intellectual property rights.

Funds and grants - the control and administration of a "basket" of separate internal bank accounts and grants provided to external organisations where the value involved may be low but reputational risk is high.

Employment and staffing matters - ranging from corporate arrangements for the vetting or termination of staff to the administration of individual incentive schemes such as car loans and recruitment expenses.

Control and use of corporate assets – weaknesses relating to the recording of assets within Directorates together with an issue relating to the authority for the disposal of land.

Control over vehicles and fuel – specific issues relating mainly to the control of fuel and petrol issues and the disposal of vehicles and plant at the Bengal Street Depot.

Collection of miscellaneous income – relating to the collection of several discreet streams of income but most notably the corporate arrangements for the recovery of charges for the private use of telephones and printing.

Procurement – an isolated but corporate weakness to adequately consult with the Director of Corporate Governance on low value contracts.

ACTION PLAN

Rec No	Risk Reg No	Area of Risk	Priority	Recommendations	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.	Corporate Director of ICT	
			2	General - An inventory of all IT equipment located within each room will be introduced and signed off by each respective Director.		
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.	Corporate Director of ICT	
			2	Members network access will be transferred to "Thin Client" with all data held centrally.		
3	83	Theft or misuse of official documents, publications or intellectual property rights due to weak document control arrangements/standard	2	The Security Policy will be amended to include a section containing advice and guidance for staff about document security and "classification"	Corporate Director of ICT	
			2	Advice and guidance on this issue will be included in the ICT element of induction sessions for staff		
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.	Corporate Director of ICT	
			1	ICT Services will introduce a procedure to carry out regular monitoring (both internet and e-mail) to ensure that its provisions are implemented by all users.		

5	100	Authorised staff may undertake the unauthorised export of official data/information	2	The proposed e-mail monitoring procedure will include a check to identify and review outgoing e-mails that have a large file size or volume of data	Corporate Director of ICT
		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	Assistant Chief Executive (BT&I)
			2	Develop and issue procedural guidance notes to the Mayors Secretary regarding the control of income.	Corp Director (Governance)
7	71/74	Act as the "accountable body" on National Lottery funded projects therefore liable in the event of third party fraud or misappropriation	2	When working with partners documentary evidence of expenditure will be obtained or inspection carried out to obtain assurance of compliance with project requirements.	Assistant Chief Executive (P&P) Corporate Director (People)
8	59	Theft/misappropriation from the Elections Bank Accounts(4) - European - Parliamentary - County - Municipal	2	An additional authorised signature will be established and arrangements will be amended to require two independent signatures on each cheque issued.	Corporate Director (Governance)
			2	The control and reconciliation arrangements should be carried out by two people.	
9	75	Misappropriation/unauthorised use of funds by applicants obtained as grants due to a lack of confirmation of expenditure in accordance with the grant application	2	Approved grant applications will be monitored to obtain assurance of compliance with the application requirements by obtaining documentary evidence of expenditure or by inspection.	Corporate Director (People)
10	76	Unauthorised use of funds obtained as small	2	A standard form of agreement will be developed and	Corporate

		value conservation grants due to a lack of confirmation of expenditure in accordance with the grant application		implemented for each grant approved.	Director (Business)	
		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.	Assistant Chief Executive (BT&I)	
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	Corporate Director of Human Resources	
13	113	Inadequate vetting of temporary or agency staff and contractors	2	Employment Policies and arrangements should be reviewed to provide advice and guidance to managers about the risks relating to the employment of agency/contractor and associated standard of background validation required.	Corporate Director of Human Resources	
14	114	Malicious/unauthorised/illegal activity due to the lack of a clear exit strategy to address disgruntled members of staff/leavers	2	Employment Policies and arrangements should be reviewed to include a formal exit strategy to be adopted when the circumstances arise.	Corporate Director of Human Resources	
15	38	Collusion or misappropriation from weak control over the ad hoc selection, engagement and payment of Coaches, entertainers and artistes	2	When authorising orders/invoices management will undertake occasional spot checks on payments that drill down in to the selection and justification for payments. A validated "select list" will be established and operated for each type of activity.	Corporate Director (People)	

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		A control will be put in place to require a client officer to provide clear evidence of the authority for disposal as part of the "client instructions" to Legal Services.	Corporate Director (Governance)			
17	31	Theft or misappropriation from "the Astley Hall collection" by internal or external source	1 1		Implement a comprehensive "artefacts database" in compliance with Museums Society standards and recommended software. Undertake a "rolling program" of stock reconciliation against the artefacts database which includes independent verification by Leisure Services Management.	Corporate Director (People)			
18	41	Misappropriation/loss of equipment due to obsolete Asset Registers	2		Each Directorate will revise and update the asset register to ensure it is comprehensive and up to date.	All Directors			
19	66/67	Theft of diesel fuel issued from Bengal Street Depot or petrol issued from Bungalow Service Station a/c due to poor control and reconciliation.	1 1		Fully implement the computerised fuel issues application/database. Review current operational arrangements and put in place a formal agreement/procedure incorporating effective control arrangements.	Corporate Director (N'hoods)			
20	68	Obtaining a pecuniary advantage from the	2		Develop and implement a clearly documented "Vehicle	Corporate			

		disposal of obsolete vehicles, plant and equipment		and Plant Disposal Policy/Procedure	Director (N'hoods)	
21	60	Theft of fuel obtained for Mayoral cars	2	Monthly reconciliation of fuel issues and verification of mpg for the car to be carried out as part of payment authorisation routine. Include vehicle details in the computerised fuel issues application database. (see 19 above)	Corporate Director (Governance) Corporate Director (N'hoods)	
		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 arrangements will be included in the implementation of the new telephony contract. A standard corporate procedure will be implemented and promoted to raise staff awareness using team brief/loop/e-news and views.	Corporate Director of ICT Corporate Director of ICT & Office Support	
23	7	Lack of clarity about arrangements for the collection of income from sales of Ordnance Survey Maps.	2	As part of the processing of the monthly invoice from "Stansfields" (Map Supplier) the numbers of plans produced by the system will be reconciled to the numbers downloaded and the income received monthly - and discrepancies will be investigated.	Corporate Director of ICT	
24	8	Collection of charges for services to CCH	2	Director of ICT Services to confirm that adequate details are specified in the contract and suitable monitoring arrangements are in place.	Corporate Director of ICT	
		Procurement				

25	61	Failure to consult Legal Services and put effective agreements in place to protect the Council for services usually under £10000	2	<p>The Corporate Procurement Guidance and procedures will be amended to specify a requirement to consult with Legal Services to ensure an acceptable agreement is put in place.</p> <p>Legal Services to produce a "good practice guide" containing bullet points setting out the main issues to consider and potential pitfalls to avoid when completing contracts at this level.</p>	Corporate Director (Governance)
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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.				