

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation)	Audit Committee	25/9/08

FRAUD & CORRUPTION RISK REGISTER

PURPOSE OF REPORT

- At the last meeting of the committee members expressed an interest in a piece of work recently undertaken by Internal Audit to develop a Corporate Fraud and Corruption Risk Register. The Assistant Chief Executive suggested that members may find it helpful if this item was added to the agenda for the next committee meeting. This report is presented in order to provide members with an opportunity to gain a more in depth insight into the nature of the activity and the work completed.

RECOMMENDATION(S)

- That the report is noted.

EXECUTIVE SUMMARY OF REPORT

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

CORPORATE PRIORITIES

- This 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 chances		Develop the Character and feel of Chorley as a good place to live	
Involving people in their communities		Ensure Chorley Council is a performing organisation	✓

BACKGROUND

- 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 and Corruption Risk Register, which identifies specific fraud risks in individual service areas.

7. Although the main purpose of the exercise was to address the Audit Commissions recommendations it also enhances the CIPFA / Solace guidelines on governance in relation to probity and ethics and provides a more robust Anti Fraud and Corruption Strategy.

8. The attached report explains the process involved in compiling the Register and the resulting action plan, which is also attached.

IMPLICATIONS OF REPORT

9. The actions contained in the action plan to the report have been discussed and agreed for implementation with the relevant Corporate Directors. We will undertake a review in due course to ensure that appropriate action has been taken to mitigate the risks identified.

GARY HALL
 ASSISTANT CHIEF EXECUTIVE
 BUSINESS TRANSFORMATION

Background Papers			
Document	Date	File	Place of Inspection
Internal Audit report 14_07 – Fraud and Corruption Risk Register	2008	BT&I – Internal Audit – 14_07	Union Street

Report Author	Ext	Date	Doc ID
Andy Armstrong	5465	10/09/08	25_09_08 FCCR.doc

Chorley Council

Internal Audit Report 14_07

Fraud & Corruption Risk Register



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ACTION PLAN

BACKGROUND	
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	
10	<p>OVERALL AUDIT OPINION (*)</p> <p>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</p>
<p>AUDIT OPINION RATINGS</p> <p>Inadequate - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.</p> <p>Limited - the Authority can place only limited reliance on the controls. Significant control issues need to be resolved.</p> <p>Sound - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.</p>	
11	<p>OVERVIEW</p> <p>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.</p>
12	<p>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.</p>
14	<p>FRAUD AND CORRUPTION RISK REGISTER</p> <p>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:</p>
<p>Fraud Category - the generic types of fraud risk set out in the prevailing guidance</p> <p>Area of Risk - the detailed, potential fraud risks within each category</p> <p>Mitigation / Controls - the measures already in place within the Council to reduce the likelihood and / or impact of the potential fraud risks</p> <p>Risk Rating - taking the existing mitigation / controls into account, whether the level of risk remains high, medium or low (using the corporate risk matrix)</p> <p><i>The remaining columns were only completed in respect of high / medium risks as no further action was considered necessary in respect of low risks</i></p> <p>Exposures Identified - the potential impact on the Council's operations should the risks materialise</p> <p>Recommendations - the action that should be taken to address the high / medium risks identified</p> <p>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</p>	

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 23 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.

ACTION PLAN

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. General - An inventory of all IT equipment located within each room will be introduced and signed off by each respective Director.	Corporate Director of ICT Corporate Director of ICT	Sept/08 July 08
2	53	Unauthorised access/use of information and records due to - uncontrolled movement of unencrypted data	1 2 2	A Home working Policy incorporating suitable standards and guidance will be developed and implemented as part of the development of the Home Working project. 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. Encrypted USB sticks have been issued to each Directorate for official use by relevant staff.	Corporate Directors of ICT & Human Resources Corporate Director of ICT Corporate Director of ICT	Dec 08 12/08 (subject to Scrutiny work) Complete 05/08
3	83	Theft or misuse of official documents, publications or intellectual property rights due to weak document control arrangements/standard	2 2	Corporate Director (ICT) will amend the Security Policy to include a section containing advice and guidance for staff about document security and "classification" Advice and guidance on this issue will be included in	Corporate Director of ICT Corporate	July 08 Complete

			the ICT element of induction sessions for staff	Director of ICT	May 08
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 1	Corporate Director of ICT Corporate Director of ICT	12/08 Complete 05/08
5	100	Authorised staff may undertake the unauthorised export of official data/information	2 1	Corporate Director of ICT Corporate Director of ICT	Complete 05/08 03/09
		Funds and grants			
6	58	Theft/misappropriation from the Mayors Charity Bank Accounts due to poor control arrangements	2 2	Assistant Chief Executive (BT&I) Corp Director (Governance)	Commene'g with the 08/09 Civic year
7	71/74	Act as the "accountable body" for National Lottery funded projects and partnership activity therefore liable in the event of third party fraud or misappropriation	2	Assistant Chief Executive (P&P)	July 08

			2		The basis for running such projects has now changed and Partner Organisations now assume “accountable body” status for the expenditure relating to their project activity. Additional controls (see item 9 below) are also in place.	Corporate Director (People)	Complete 04/08
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)	August 08
			2		Control and reconciliation arrangements will be revised to incorporate independent reconciliation by an individual not involved in the issue of payments.	Corporate Director (Governance)	August 08
			1		An Internal Audit review of Election Fees is planned for 08/09 (Q2) and specific recommendations will be made at the time.	Internal Audit/Corporate Director (Governance)	August 08
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)	Complete 04/08
10	76	Unauthorised use of funds obtained as small value conservation grants due to a lack of confirmation of expenditure in accordance with the grant application	2		No grants are currently available however a standard form of agreement will be implemented and inspection to confirm completion carried out for each grant approved when funding is restored.	Corporate Director (Business)	When grant funding is restored.
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)	Annually from June 08

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	May 08
13	113	Inadequate vetting of temporary or agency staff and contractors	2	Corporate arrangements will be reviewed with a view to centralising arrangements and improving overall control and cost effectiveness. The Recruitment and Selection Policy is currently under review and suitable advice and guidance to managers about the risks relating to the employment of agency/contractor and associated standard of background validation required will be incorporated.	Corporate Director of Human Resources Corporate Director of Human Resources	July 08 July 08
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	July 08
15	38	Collusion or misappropriation from weak control over the ad hoc selection, engagement and payment of Coaches, entertainers and artistes	2 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) Corporate Director (People)	May 08 Complete 04/08
16	79	Control and use of corporate assets 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	Where necessary Legal Services staff will 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)	Complete 05/08

			2	Property Services management procedures under the Liberata Partnership are to be revised as part of the review of the Constitution.	Corporate Director (Governance)	July 08
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.	Corporate Director (People)	To be in place by January 2009
			1	Undertake a "rolling program" of stock reconciliation against the artefacts database which includes independent verification.		
			2	The issues will be set as Performance objectives for the Curator and consideration given to the resource implications.		
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	July 08
		Control over vehicles and fuel				
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	Operational arrangements have now changed and are under review. A formal agreement/procedures incorporating effective control arrangements will be implemented as part of the Depot Management Action Plan.	Corporate Director (N'hoods)	06/08
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	Corporate Director (N'hoods)	06/08

21	60	Theft of fuel obtained for Mayoral cars	2	<p>Monthly reconciliation of fuel issues and verification of mpg for the car to be carried out as part of payment authorisation routine.</p> <p>The vehicle details will be included in the control arrangements to be implemented as part of the Depot Management Action Plan at 19 above .</p>	<p>Corporate Director (Governance)</p> <p>Corporate Director (N'hoods)</p>	<p>Complete 04/08</p> <p>06/08</p>
		Collection of miscellaneous income				
22	2	Non payment of private phone call (landline & mobile)/printing charges due to lack of effective collection mechanisms	1	<p>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.</p> <p>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.</p> <p>The Employee Code of Conduct will be amended to provide guidance for staff.</p>	<p>Corporate Director of ICT</p> <p>Corporate Director of ICT</p> <p>Corporate Director of ICT/ Corporate Director of Human Resources</p>	<p>June 08</p> <p>June 08</p> <p>June 08</p>
23	7	Lack of clarity about arrangements for the collection of Income from sales of Ordnance Survey Maps.	2	<p>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.</p>	<p>Corporate Director of ICT</p>	<p>June 08</p>

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.