



**REPORT of
INTERIM SECTION 151 OFFICER**

**to
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE
24 OCTOBER 2019**

**INTERNAL AUDIT – FRAUD RISK ASSESSMENT – ADVISORY REPORT
ADDRESSING THE RECOMMENDATIONS**

1. PURPOSE OF THE REPORT

1.1 The Finance and Corporate Services Committee at its last meeting on 24 September 2019 considered an Internal Audit Advisory Report on Fraud Risk Assessment in the Council. The Committee resolved the following:

- (i) that the findings of the Internal Audit Fraud Risk Assessment – Advisory Report – March 2019 be noted;
- (ii) that the Performance, Governance and Audit Committee consider a report at its next meeting providing an update on the progress of work in respect of the Internal Audit recommendation.

2. RECOMMENDATIONS

That the Committee:

- (i) considers this report with particular reference to Section 3 and **APPENDIX 1**;
- (ii) notes the Interim Section 151 Officer’s approach and his views and advice on ensuring that the corporate anti-fraud activities and awareness together with the appropriate processes and polices are all linked together and embedded into the normal operational working of the Council and that the ownership and accountability for the exercise of the function is identified in an individual role;
- (iii) agrees that in view of the current ongoing structure change in the Council, the findings and recommendations of the Advisory Report are implemented in full by December 2019 with a combination of in-house resources and tailored external support from BDO the balance of activities between the two to be determined by the Corporate Leadership Team; and
- (iv) agrees that the responsibility and accountability and hence the ownership for corporate fraud prevention function overall within the Council is clearly defined to an individual resource to lead on.

3. SUMMARY OF KEY ISSUES

- 3.1 The Council's Internal Auditor undertook a review of the Council's Fraud Risk Assessment process/system and awareness of fraud risk across the organisation.
- 3.2 The findings and recommendations were published in an Advisory Report which was considered by the predecessor to this Committee, the Audit Committee on 13 June 2019 for which the minute is reproduced below:

170. INTERNAL AUDIT FRAUD RISK ASSESSMENT- ADVISORY REPORT - MARCH 2019

The Committee considered the advisory report to carry out a Fraud Risk Assessment as requested by the Director of Resources, covering the period November 2018 to January 2019.

Before asking the Head of Internal Audit, Greg Rubins, to comment on findings the Director of Resources provided the background to this report. She informed the Committee that in 2015 Central Government decided to centralise all benefit fraud investigation work, however, this Council decided to retain their own fraud resource with an allocated budget. The result was a combined corporate fraud and planning enforcement resource.

In 2017 the Director of Resources asked for a review to take place, specifically requested by the section 151 Officer, as there were concerns regarding the resource and whether it was focussed on corporate fraud or planning enforcement. The report found that the Council was not doing counter fraud work as the resources were focussed on planning enforcement cases.

Mr Rubins then addressed the report and advised that for best practice purposes BDO had assessed the Council against the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance on counter fraud. He said he had seen both private and public sector organisations adversely impacted by corporate fraud. Furthermore, when going through transformation, there was an increased risk of fraud therefore close control over potential fraud was important. Whilst there was a basic framework in place and the fraud team was both experienced and knowledgeable, resources were inconsistently applied.

Assessment findings demonstrated a need to develop counter fraud resource by putting together a proper risk-based plan, a training plan for both Officers and Members, updated policies and strategies with resources applied to wider areas including procurement, HR and Finance. Alongside these measures regular reporting to Audit Committee on actions taken was crucial. He advised that once investment in this area occurs the Council may see an initial increase in reporting fraud and that this was quite normal as previously staff may not have been aware of fraud or what constituted fraud.

The Director of Resources advised the Committee that, from the outset, the Future Model had a resourced built-in activity to cover this area of work through either staff appointment or external contactor. She said that the review had shown how valuable

counter fraud work can be to an organisation as it raised awareness/reporting and shone a light on fraud, which by its nature was hidden.

The chairman put the recommendations to the Committee and they were agreed.

RESOLVED

- (i) *That Members reviewed the information as set out in this report and appendix 1 and their views and comments were sought;*
- (ii) *That it was recommended that the Finance and Corporate Services Committee receive and consider the findings of the Internal Audit Fraud Risk Assessment – Advisory Report – March 2019.*

3.2 Following the publication of the final report by BDO, the then Director of Resources on 22 May 2019 requested BDO to quote for the work arising from the recommendations in the report as follows:

‘Just a few things to pick up if possible; firstly, please could you provide a quote (doesn’t need to be a huge proposal) for the work that you would deem required in terms of counter fraud. It would make sense depending on cost for you to do IA as well as some counter fraud work if you have capacity and are interested in it subject to cost.’

3.3 The Internal Auditor, Mr Greg Rubins of BDO replied on 29 May 2019 setting out the programme of work that BDO would undertake to address the recommendations in the report for a cost of £9,000 excluding VAT. Mr Rubins also set out the quality assurance and management arrangements that would apply for the contract. The programme of work identified by BDO is set out at **APPENDIX 1**.

3.4 The Interim Section 151 Officer commenced his appointment with the Council on 5 August 2019 and only became aware of the existence of the report at the pre-agenda meeting with the Chairman and Vice Chairman of the Audit Committee leading up to 29 August 2019 meeting.

3.5 Since then the Interim Section 151 Officer has undertaken steps to trace where and how the costing of £9,000 came about that the then Director of Resources had included in the Management Comments in the report.

3.6 The outcome of that work is set out in paragraphs 3.2 and 3.3 above.

3.7 Since then the Interim Section 151 Officer has been reviewing the suggested work programme by BDO and evaluating how much of it could be undertaken inhouse by the Council’s own staff as part of normal operations and within the context of the new Future Council structure vis-à-vis capacity and understanding of existing Officers as the then Director of Resources had advised the Audit Committee at its meeting on 13 June 2019 that, *from the outset, the Future Model had a resourced built-in activity to cover this area of work through either staff appointment or external contactor.*

She said that the review had shown how valuable counter fraud work can be to an organisation as it raised awareness/reporting and shone a light on fraud, which by its nature was hidden’.

- 3.8 The Interim Section 151 Officer is currently in the process of identifying where the resourced built-in activity is in the organisation in view of the structure changes and if so to bring the work programme into the remit of the resource with a plan for its delivery. Failing that, it is considered that the work is commissioned to be undertaken by BDO.
- 3.9 It is the view of the Interim Section 151 Officer the corporate fraud risk assessment and awareness policy and strategy with the consequent processes, procedures and system(s) in the Council should ideally be developed, implemented, maintained and monitored inhouse so that ownership and accountability of the function is clear from the outset. Whilst, external expertise and help can be beneficial and sometimes necessary, it be seen as a ‘bolt-on’ time specific defined piece of work that is done by an external supplier who then leaves it with the Council without any clear ownership for it once handed over internally. This danger can be even more so in a Council where roles and responsibilities and the whole way of working has and is in a state of change.
- 3.10 It should be noted as recorded in Minute No. 170 reproduced above that the original reason for the request for Internal Audit to undertake the advisory report work was a concern within the organisation and particularly the then Director of Resources (Section 151 Officer) as to the effectiveness of the Corporate Fraud and Planning Enforcement resource and whether it was focussed on corporate fraud or planning enforcement. The findings showed that the resource is focussed on planning enforcement.

4. CONCLUSION

- 4.1 The findings and the recommendations of the Fraud Risk Assessment Advisory Report dated March 2019 need to be addressed on account that the internal Corporate Fraud and Planning Enforcement resource is concentrated mainly on planning enforcement cases.
- 4.2 The Council has to have in place the policy and strategy on Corporate Fraud and the consequent system(s), process/procedures and monitoring arrangements in place to ensure that it is protected through all staff being aware of the policy and strategy together processes and procedures for identifying potential or actual fraud and reporting any concerns. The processes should also include the actions that would be taken once a concern has been reported. This would include links with the Council’s other relevant policies e.g., the Whistle Blowing Policy and Members and Officers Codes of Conduct, Contract of Employment, Staff Handbook (if there is one), Staff Inductions etc.

5. IMPACT ON STRATEGIC THEMES

- 5.1 Corporate Fraud Risk Assessment and awareness within the Council with a clear policy / strategy, processes and procedures is an essential element in protecting and maintaining the reputation of the Council across all its Strategic Themes.

6. IMPLICATIONS

- (i) **Impact on Customers** – Customers should feel confident when dealing with the Council in that it will be conducted with honesty and integrity without favour or bias.
- (ii) **Impact on Equalities** – None arising directly from this report but the comment in (i) above applies here too.
- (iii) **Impact on Risk** – This report is regarding a specific risk area as described in Section 3 above.
- (iv) **Impact on Resources (financial)** – The report identifies a need for a resource to not only address the findings and recommendations of the Internal Audit – Fraud Risk Assessment Advisory report but also for the ongoing responsibility for Corporate Fraud Risk Assessment and management on an ongoing basis as part of the normal operations of the Council and not a one off ‘bolt-on’ piece of work undertaken periodically.
- (v) **Impact on Resources (human)** – There will be a resource requirement either identified internally or ‘bought-in’ as a result of this report.
- (vi) **Impact on the Environment** – None arising directly from this report.
- (vii) **Impact on Strengthening Communities** – None arising directly from this report.

Background Papers: None.

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