

Audit Committee – 18 November 2019

Counter Fraud and Corruption Arrangements

1. Summary of the report

1.1 To provide Audit Committee, whose delegated role is to provide independent assurance regarding Walsall Council's counter fraud and corruption arrangements, with an update on:

- The adequacy of counter-fraud and corruption arrangements, and
- A proposed work programme of counter fraud activity.

2. Recommendations

Audit Committee is recommended to:

2.1. Note the assurances provided from this report, as well as the future plans outlined and provide input and challenge to the direction of travel regarding the Walsall's counter fraud and corruption arrangements.

3. Background and Resource and Legal Considerations

3.1 It is beneficial to periodically formally review arrangements against good practice and report findings. The last complete review and update of the policy occurred in March 2017. This review has been undertaken using the Fighting Fraud and Corruption Locally 2016-2019 resource, which is a local government strategy that provides good practice advice and guidance to local authorities with regards to tackling Fraud and Corruption and is supported by the CIPFA Counter Fraud Centre.

3.2 This review incorporates a wider assessment of Walsall's overall arrangements, including the counter fraud policy and presents a proposed plan of activity to support the findings of the review.

3.3 In recent years, councils' responsibilities with regards fraud and corruption have changed with the power to prosecute housing benefit fraud being removed and the Department of Work and Pensions Single Fraud Investigation Service (SFIS) taking over. This triggered a TUPE transfer of local authority housing benefit investigators into SFIS. Councils' remain responsible for all other types of fraud and has legislative powers to respond accordingly.

3.4 Prior to the review management had been considering the resource available to investigate frauds. Resources include:

- approximately one full time equivalent fraud investigator,

- a provision of 30 days fraud work within the Internal Audit Plan provided by Mazars
- access to procure further resources via this contract at set rates and expertise in neighbouring local authorities.

3.5 This and the annual review has highlighted the need to review the balance of internal versus external resource to ensure that the council's arrangements are fully in line with good practice, optimise value for money in use of resources, and to ensure it can continue to proactively respond against the risks identified. Further consideration will be given to this and a business case produced to appraise options in both the short term and the longer term.

4. Governance and Risk Management

4.1 Audit Committee's responsibility for in relation to fraud includes the following:

- Monitoring the counter fraud policy, actions and resources – a refreshed policy is attached for consideration and approval.
- Reviewing the assessment of fraud risks and potential harm to the Council from fraud and corruption – a revised draft risk assessment is out for internal consultation and the final version will be reported to Audit Committee.

4.2 A review of the counter fraud and corruption arrangements has been undertaken. This has involved a review of arrangements against the Fighting Fraud Locally (FFL) Good Practice advice, including completion of the checklist. The outcome of this is attached as Appendix 1 and actions arising from this are included in the action plan, contained later in this report.

4.3 The review highlighted the need to refresh the counter fraud policy and fraud response plan to align them further with the national strategy and to make the document more concise and user friendly. This work is in train.

4.4 The Fraud Risk Assessment for the council was previously updated in 2015. This is being refreshed and will be subject to service wide consultation. Actions to ensure the risk assessment remains up to date going forward and is reported to senior management and Audit Committee are also included in the action plan.

4.5 The table below includes the proposed action plan for fraud over the next 18 months. Once the fraud risk assessment has been finalised, an updated plan will be presented.

Ref	Implementation Action Plan	Estimated Timing by / Responsible Officer
1	Training for Audit Committee Members	18 November 2019 - Mazars
2	Audit Committee receive and review existing counter fraud arrangements,	18 November 2019 - Head of Finance

Ref	Implementation Action Plan	Estimated Timing by / Responsible Officer
	including a proposed work programme of counter fraud activity.	
3	<p>Implementation of actions arising from the assessment of Walsall's counter fraud arrangements against the FFL checklist:</p> <ul style="list-style-type: none"> a) Refreshed policy and response plan consulted on b) Risk Assessment produced and out for consultation - informs an enhanced action plan(Q1/2) c) Publication of proven fraud/corruption (Q8 & 20) d) Recruitment vetting checks to be reviewed (Q11). e) Programme of fraud work (Q13 & Q26) – this action plan f) Review of whistleblowing policy (Q14) g) Contractors sign up to whistleblowing policy – review (Q15) h) Review of balance of internal v external fraud resources (Q16) i) Consolidated reporting of fraud related statistics (Q18) j) Formal fraud checklist (Q21) k) Explore data matching and data analytics opportunities (Q28 & Q29) l) Formal reporting of NFI outcomes (Q30) 	<p>December 2019 – August 2020: All Head of Finance unless stated below</p> <p>March 2020 (April 2020 Audit Committee approval)</p> <p>March 2020</p> <p>April 2020</p> <p>April 2020 – Head of Finance with Head of HR Ongoing</p> <p>December 2019 - HR</p> <p>May 2020 (Contract Rules)</p> <p>April 2020 April 2020</p> <p>February 2020</p> <p>April 2020</p> <p>April 2020</p>
4	Review of e-learning package (and redesign and roll out if appropriate).	July 2020 – Head of Finance and Head of Internal Audit
5	<p>Review of Money Laundering Policy and Arrangements and Criminal Finance Act.</p> <p>Consultation</p> <p>Report to Audit Committee.</p>	<p>December – March 2020 review</p> <p>April 2019</p> <p>June/July 2020</p>
6	<p>Fraud Awareness sessions with High Risk services and review of their fraud risks.</p> <p>Outputs to inform an updated fraud risk assessment.</p>	April – July 2020 - – Head of Finance and Head of Internal Audit

Ref	Implementation Action Plan	Estimated Timing by / Responsible Officer
		July 2020 (report to Audit Committee September 2020)
7	Proactive Fraud work – from risk assessment - To Be Agreed.	April 2020 to March 2021 and Ongoing, milestones to be agreed
8	Annual Review and report to Audit Committee on planned and reactive activity. To ensure full compliance with Fighting Fraud Locally requirements.	June 2020 (As part of Annual Governance Statement and review of effectiveness)
9	Review Strategy against good practice. Align review to the national strategy timetable.	2020 following the issue of next Fighting Fraud Locally guidance.

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6 November 2019

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Walsall Assessment against Fighting Fraud & Corruption Locally Counter Fraud Checklist

Ref	Checklist Area	Yes / No / In Part	Evidence / Actions
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior board and its members.	In Part	<p>A fraud risk register exists, however is out of date. This is being reviewed and replaced with a more comprehensive and up to date assessment of fraud risks. This assessment will be consulted upon and presented to Audit Committee alongside an enhanced action plan, in April 2020. Reporting frequency will be agreed with Audit Committee and senior management.</p> <p>Fraud risk is considered as part of the as part of the Internal Audit plan and within reviews of the internal control environment.</p>
2	The local authority has undertaken an assessment against the risks in Protecting the Public Purse: Fighting Fraud Against Local Government and has also undertaken horizon scanning of future potential fraud and corruption risks.	YES	See 1.
3	There is an annual report to the Audit Committee, or equivalent detailed assessment, to compare against Fighting Fraud and Corruption Locally (FFCL) 2016 and this checklist.	In Part	This assessment provides the assessment - on agenda for 18 November 2019 and will be presented annually thereafter, by Head of Finance.
4	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business, which has been communicated throughout the local authority and acknowledged by those charged with governance.	YES	<p>Refreshed March 2017 (reported to April 2017 Audit Committee) and communicated.</p> <p>Latest review is included in the action plan on agenda for 18 November 2019.</p>

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5	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	YES	The Council's Governance Framework exists to achieve this and legislative and good practice. This includes the Constitution (including Contract and Finance Rules), Codes of Conduct, Medium Term Financial Strategy and supporting documents (treasury management policy statements, budget management and control manual), HR policies and procedures. Member and officer training includes conduct.
6	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	In Part	Fraud is considered as part of the Directorate level Risk Registers. The risk management framework considers the risk of fraud. A separate risk assessment is in place but is out of date and is currently being reviewed and refreshed by the Head of Finance.
7	Counter fraud staff are consulted to fraud proof new policies, strategies and initiatives across Directorates and this is reported upon to committee.	YES	Internal audit are routinely consulted on new initiatives where there are significant changes to the internal control environment i.e. new systems. HR, legal and finance are consulted on policies and strategies prior to reporting to Committees and risks are required to be considered and reported within Committee reports. Policies are reviewed by specialists as required i.e. counter fraud policy reviewed by Mazars.
8	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	In Part	The Council has responded to and participated in publication of proven fraud. This will be included in future annual reporting to Committee. Further consideration of publicising proven cases will be considered - the Head of Finance will discuss individual cases with CMT as appropriate.

Ref	Checklist Area	Yes / No / In Part	Evidence / Actions
9	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	YES	Counter Fraud policy in place, supported by Anti Money Laundering and Whistleblowing procedures. These are subject to review in accordance with the action plan. Internal audit plan and reports consider fraud risk. Internal audit progress reports to Audit Committee include an update on any irregularity or fraud related referrals/investigations. The Annual Governance Statement considers the effectiveness of the internal control environment, including those relating to fraud.
10	The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:- <ul style="list-style-type: none"> - Codes of conduct including behaviour for counter fraud, anti-bribery and corruption. - Register of interests. - Register of gifts and hospitality 	YES	The Internal Audit plan reviews risks in relation to conduct. An Internal audit of the officer and members registers of interests was undertaken in 2017/18, which received substantial assurance. A gifts and hospitality procedure is in place. The officer register of interests is maintained by individual Directorates and a copy is held in Legal Services. The member register of interests is maintained by Legal Services. Officer and member conduct is reported on to CMT and Directorates. Instances of fraud are reported to Audit Committee.
11	The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2016 to prevent potentially dishonest employees from being appointed.	In Part	Recruitment procedures include vetting of staff, where appropriate for the post, based on a risk assessment (i.e. DBS checks). Vetting includes ensuring right to work. 2 references are required, including one from current employer.

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			<p>An internal audit of Human Resources in 2016/17 covered recruitment vetting with no exceptions identified.</p> <p>BPSS checks (Baseline Personnel Security Standards) are undertaken for specific posts.</p> <p>NAFN is also used, where appropriate.</p> <p>Consideration will be given to utilising additional checks, such as from Cifas Internal Fraud Database, a fraud prevention service. The Head of Finance will discuss with Head of HR.</p>
12	Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.	In Part	<p>Officer and Member Codes of Conduct make clear this requirement. There are separate procedures in respect of disclosures. Induction procedures reference these.</p> <p>The Internal Audit Plan is based on a risk assessment. Frequency of audits is based on a risk assessment of the internal control environment and disclosures of gifts and hospitality is not routinely checked by auditors on this basis.</p>
13	There is a programme of work to ensure a strong counter fraud culture across all Directorates and delivery agents led by counter fraud experts.	In Part	<p>There is a provision of days within the Internal Audit plan for counter fraud activity.</p> <p>There is a counter fraud policy supported by various documents.</p> <p>There is access to both internal and external (Mazars) specialists.</p> <p>The latest review recommends an enhanced programme of proactive work to raise awareness and ensure a strong culture is maintained. The Head of Finance will lead this.</p>

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14	There is an independent whistle-blowing (WB) policy, which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	In Part	Whistle blowing policy in place. All WB allegations are followed up. This is not formally reported on for take-up. The current policy is under review by HR and monitoring for take-up and reporting thereof will be considered within the revisions.
15	Contractors of third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle blowers.	In Part	There is legislation covering Whistle blowers and contractors are covered by this. Further consideration will be given to this area - the Head of Finance will liaise with the Head of Procurement and Head of Legal Services.
16	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	YES	Resources are available for both proactive and reactive work and include: <ul style="list-style-type: none"> • approximately one full time equivalent fraud investigator. Access to investigation resource(s) is available from internal provision. • a provision of 30 days fraud work within the Internal Audit Plan provided by Mazars • access to procure further resources via this contract at set rates. • Access to expertise within neighbouring local authorities. A review of the balance of internal versus external resource is required to ensure resources align to risks and optimise VFM. The Head of Finance will lead this.
17	There is an annual fraud plan, which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes	YES	Internal Audit plan is risk assessed and is informed by fraud risks.

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	activities undertaken by contractors and third parties or voluntary sector activities.		The annual review to be reported to 18 November Audit Committee includes an assessment against this good practice checklist and a fraud plan of works.
18	Statistics are kept and reported by the fraud team, which cover all areas of activity and outcomes.	In Part	Statistics are maintained by individual service areas – for example, MHJ records its error / fraud activity for its Data-matching (HBMS), NFI and Council Tax Reduction (Including Single Person Discount Reviews) responsibilities. The Council participates in the Bi-annual NFI exercise and all its activity in this initiative is maintained statistically via the NFI Data-base. Consolidated reporting will be implemented within an annual report and will inform the annual governance statement, which is led by the Head of Finance.
19	Fraud officers have unfettered access to premises and documents for the purpose of counter fraud investigation.	YES	This is supported by feedback from officers / investigators.
20	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.	In Part	See 8.
21	All allegations of fraud and corruption are risk assessed.	YES	All allegations are reviewed and assessed to determine next steps (fact finding, formal investigation, referral to police), and the skills requirement needed (internal, Mazars, specialist) based on the size, nature and potential seriousness of the allegations. This is kept under review as the investigation progresses. A formal checklist will be instigated. The Head of Finance will liaise with the Internal Audit Manager on this matter.
22	The fraud and corruption response plan covers all areas of counter fraud work: - Prevention	YES	The counter fraud policy provides for this and the revised plan will be reported to Audit Committee in April 2020.

Ref	Checklist Area	Yes / No / In Part	Evidence / Actions
	<ul style="list-style-type: none"> - Detection - Investigation - Sanctions - Redress 		
23	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	YES	The current response plan was reported to Audit Committee in April 2017. The refreshed Counter Fraud Policy will incorporate a revised response plan. Once approved, it will be formally communicated and supported by training/awareness raising.
24	Asset recovery and civil recovery is considered in all cases.	YES	The Head of Finance, appropriate senior managers and Senior Audit Manager liaise direct with the Head of Legal Services – Contentious to review all proven cases and recovery options.
25	There is a zero tolerance approach to fraud and corruption which is always reported to committee.	YES	Counter fraud plan. Internal Audit progress reports and private agenda items.
26	There is a programme of proactive counter fraud work, which covers risks identified in assessment.	In Part	The report to Audit Committee in November 2019 on the review of Walsall's fraud arrangements contains reference to a refreshed fraud risk assessment, which will feed into the counter fraud work plan.
27	The fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.	YES	<p>There is no longer a dedicated internal fraud team, as resources TUPED to DWP, where the responsibility for housing benefit fraud now rests.</p> <p>See 16 above for current resources and plans to review this.</p> <p>Walsall works with NFI, NAFN, DWP, SFIS, and other enforcement agencies, as appropriate. Walsall is currently participating in a pilot backed by the Home Office and DWP, in relation to business rate and council tax reduction fraud.</p>

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			<p>Further opportunities will be explored by the Head of Finance in consultation with the Internal Audit Manager.</p> <p>A corporate approach to co-location is not in place as functions fall within different areas, however opportunities for any improvements will be explored.</p>
28	The local authority shares data across its own directorates and between other enforcement agencies.	YES	Data is shared across Directorates and with DWP, NFI etc. Other opportunities in terms of data matching will be further explored i.e. direct matching of direct payments.
29	Prevention measures and projects are undertaken using data analytics where possible.	YES	<p>The council makes use of NFI national data matches, which is a fraud detection measure, and participates in the monthly data-matching programme of its Benefit Systems (HBMS) – correcting errors and identifying suitable cases for referral to appropriate agencies or taking action internally to correct or investigate as required (Example Council Tax Reduction Scheme).</p> <p>Data analytics is an area to be explored further within the fraud work plan.</p>
30	The local authority actively takes part in the National Fraud Initiative (NFI) and promptly takes action arising from it.	YES	<p>See 29.</p> <p>Consideration will be giving to more formal reporting on the outcomes of NFI work.</p>
31	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work, they too must be trained in this area.	YES	<p>The Internal Audit team have experience in undertaking irregularity audits. Mazars have access to experienced, trained staff.</p> <p>The council has access to internal resource with suitably experienced and qualified staff.</p>
32	The counter fraud team had adequate knowledge in all areas of the local authority or is trained in these areas.	YES	See 27 and 31. As detailed in 16, a further review of resources is to be undertaken.

Ref	Checklist Area	Yes / No / In Part	Evidence / Actions
33	<p>The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for:</p> <ul style="list-style-type: none"> - Surveillance - Computer forensics - Asset recovery - Financial investigations 	YES	<p>This is provided for within the Internal Audit Contract and additionally, the council can access specialist support as required from other sources.</p> <p>The council has suitably trained officers in the use of surveillance – regular training (including refresher training) is undertaken by both the senior responsible officer, authorising officers and operational staff to ensure compliance. The council is inspected in its use of RIPA by the Investigatory Powers Commissioners Office.</p> <p>Financial Investigations – this facility is also available via co-operation with a neighbouring authority.</p>
34	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to Directorates to fraud proof systems.	YES	<p>Where fraud has been proven, this has been reported to Audit Committee. Outcomes of investigations are fed back to Directorates to ensure follow up. Follow ups are undertaken to ensure systems control weaknesses have been improved.</p>