

11 Aril 2023

Counter Fraud and Corruption Arrangements Update

Ward(s): All

Portfolios: All

Purpose: For Information

1. Aim

- 1.1 To ensure members are aware of the work being progressed in relation to the Counter Fraud Response Plan and allow any appropriate questions to be raised or clarification to be provided in relation to it.

2. Summary

- 2.1 This report provides an update to Audit Committee to make Committee members aware of the current position in relation to our Counter Fraud Response Plan and specifically provides an update on progress in relation to:
- 2b - Development of Fraud Risk Assessment, with the outcome incorporated into Directorate Risk Registers (DRR), and a summary of DRR fraud risks to be provided to AC as part of Strategic Risk Register (SRR) updates; and
 - 3b - Fraud Awareness sessions with high risk services and review of their fraud risks. Outputs to inform an updated fraud risk assessment.

3. Recommendations

- 3.1 Audit Committee are requested to note the progress to date and to raise any relevant questions in relation to this.

4. Report detail – know

Background

- 4.1 Audit Committee at their meeting on 12 April 2021 received and approved an updated Counter Fraud and Corruption Policy and associated Response Plan, which set out details of the work that the council will take to embed that policy. An update on that Response Plan was also provided to Audit Committee on 27 September 2021, 22 February and 21 November 2022.

Current Position

- 4.2 Work has continued to take place to implement the actions set out in the Response Plan, summarised as:

- Updated Anti-Money Laundering Policy presented in 2022/23.
- Completion of initial directorate fraud risk assessment workshops, development of fraud risk assessments and development of training plan. A consolidated draft risk register has been created and further work is in train as set out in this report. The training material and programme is being worked on.
- A full update on the position of all actions within the Response Plan is attached at Appendix 1.

Fraud Risk Assessment

- 4.3 The Response Plan includes a review to identify and assess fraud risks across the council to ensure all pertinent fraud risks are identified, appropriate controls have been developed and are, or will be, in place, and that these risks are included where required in the directorate risk registers.
- 4.4 Since Summer 2022, workshops have been held with individual teams in each Directorate to identify risks within each area. When the review commenced there were no specific fraud related risks in any of the directorate risk registers, however there was a separate corporate fraud risk register. The risks and associated controls were assessed and scored using the council's Risk Management methodology. This report summarises the key fraud risks identified, and it is the responsible Directors, together with their DMTs, who should review and add any fraud risks that they deem appropriate to their directorate risk registers.
- 4.5 A total of 211 risks have been identified, including a number of generic fraud risks across the organisation, such as the use of purchase cards, where the relevant policy or guidelines will be set by one directorate but the activity and application of the associated controls and mitigating actions will be undertaken across the council. These risks were duplicated in the current version of the fraud risk register, but ownership of these has been established so the duplicates can be removed going forwards. A summary of risks is provided below (table 1), along with a summary of net risk ratings (table 2). The top 10 (unmoderated) risks identified are also set out below (table 3).

Table 1: Summary of Fraud Risks

Directorate	High		Medium		Low		Not Rated		Total
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
ASC, PH & Hubs	2	1	17	5	6	9	0	0	25
Children's Services & CE	20	1	7	13	4	17	7	7	38
Economy, Environment & Community	0	0	18	7	42	53	2	2	62
Resources & Transformation	13	0	45	29	26	55	2	2	86
Total	35	2	97	54	68	144	11	11	211

Table 2: Net Risk Ratings

5 Catastrophic	1	2	0	0	0
4 Severe	6	3	1	0	0
3 Material	20	10	3	1	0
2 Minor	13	53	13	3	0
1 Negligible	35	21	11	3	1
	1 Rare	2 Unlikely	3 Possible	4 Probable	5 Almost Certain

LIKELIHOOD

Table 3: Top Ten Fraud Risks

Risk No.	Business Area	Risk Area	Caused By	Gross Risk	Net Risk
4	New Art Gallery	Data Access	Data manipulation. Unjustified data extraction. Use for personal gain. Inappropriate data sharing. Illicit data usage. Access to mailing list for website and social media contacts.	15	10
25	ASC	Procurement & Purchasing	Inflated prices in invoices from contractors. Failure to supply goods or services. Payment not matching invoice. False invoices. Employee provides a third party with information that gives them a competitive advantage in securing Council contracts.	12	8
61	Community Safety	Licensing	False information on applications.	10	8
62			Proxy applicants.	10	8
96	Highways & Transportation	Recruitment	False information on applications. Supplying false references. Ineligibility to work in the UK. Framing job description for benefit of a specific candidate. Sharing questions in advance of interview. Proxy candidate attending interview. Non-disclosed relationship between candidates and staff / members.	12	8
158	Resources & Transformation	HR Transactions	Lack of proper authorisation. Incorrect employee details recorded.	15	9
161			Failure to identify when sick pay should be paid or has ceased. PaaS system not operating as required impacting on data quality and accuracy (Oracle One Source).	16	12

Risk No.	Business Area	Risk Area	Caused By	Gross Risk	Net Risk
166	Resources & Transformation	Ghost Employees	Creation of false details on Council systems. Failure to delete / amend records when staff leave.	20	9
174	Resources & Transformation	Cyber attacks	Inadequate access controls.	20	10
205	Public Health & Commissioning	Inadequate Contract Management Capacity and Capability across the whole of the council	Lack of adequate resources / a designated contract management team.	16	12

4.6 An update was presented to Director Group and CMT in March and the following actions agreed as next steps:

- a. Assign ownership of 'generic' fraud risks;
- b. Agree the process to moderate fraud risk assessments;
- c. Endorse the high-level training plan; and,
- d. Set parameters and timetable for identification of staff to attend fraud awareness training sessions.

4.7 Generic fraud risk owners were identified and review and moderation of these can now commence, with the removal of any duplication. The process for moderation of risks will be undertaken by risk leads and risk champions to ensure a consistent approach across the council, and a risk workshop is planned to support this.

4.8 Going forwards, risks will be incorporated as appropriate into Directorate Risk Registers and the Strategic Risk Register.

4.9 A high level training plan is attached at Appendix 2 and training material is currently being formulated. Staff with internal control systems, raising orders or making payments (including Purchase Card holders) will be mandated to attend relevant training as required by the Counter Fraud Policy.

4.10 The contract with Solihull Council's Counter Fraud & Investigations Team is due to end on 30 June 2022. It is proposed to extend this support for a further year to complete and embed the fraud risk assessment and training process and provide support whilst internal fraud capacity is built/recruited to.

5. Financial information

5.1 There are no direct financial implications associated with this update. As set out in the report resources to undertake both proactive and reactive fraud work have been put in place. Proactive counter fraud activity helps protect public monies intended to be used on delivering the council's corporate objectives.

6. Reducing Inequalities

6.1 There are no equality implications directly related to this report.

7. Decide

- 7.1 As this report is for information only there are no matters within this report for decision, however members are recommended to raise any appropriate questions to allow further clarification to be provided in relation to the update provided.

8. Respond

- 8.1 Any issues raised by Audit Committee in relation to this update will be considered by management and further action taken as required.

9. Review

- 9.1 The formal review of the Counter Fraud and Corruption Policy is undertaken every two years, with the next review due to commence in April. Updates regarding the progress of Response Plan actions will be regularly reported to Audit Committee.

Background papers

Updated Counter Fraud and Corruption Policy and Response Plan – Reported to Audit Committee 12 April 2021

Counter Fraud Response Plan Updated Timeline Briefing Note – Circulated to Audit Committee members 6 August 2021

Counter Fraud Response Plan Updated Timeline – Reported to Audit Committee 27 September 2021

Counter Fraud Arrangements and Response Plan Update – Reported to Audit Committee 22 February 2022

Updated Anti Money Laundering Policy – Reported to Audit Committee 28 April 2022

Counter Fraud Arrangements and Response Plan Update – Reported to Audit Committee 21 November 2022

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Counter Fraud Response Plan – Updated Position as at March 2023

Ref	Implementation Action Plan	Responsible Officer and Associated Timing	Current Position
1	Audit Committee receive and review counter fraud arrangements, including a proposed work programme of fraud activity.	Head of Finance (April 2021)	Provided to Audit Committee in April 2021, with further updates in September 2021, February and November 2022.
2	Fraud Work Programme (Q13 & Q26) – this action plan.	Head of Finance (April 2021)	Provided to Audit Committee in April 2021, with further updates in September 2021, February and November 2022.
2.a.	Reviewing / identifying required capacity, business case, and development – incl. balance of internal v external fraud resources – for both proactive fraud work and support to fraud investigations.	Head of Finance (June 2021)	Contract with Solihull Council (SMBC) to provide this capacity for an initial 2 year period. To be extended for a further year. Further review of ongoing capacity commencing.
2.b.	Development of Fraud Risk Assessment, with the outcome incorporated into Directorate Risk Registers (DRR), and summary of DRR fraud risks to be provided to AC as part of SRR updates.	SMBC fraud capacity (October 2021 onwards)	Commenced – Directorate risk assessment workshops have taken place. Initial council wide risk assessment collated and presentation to Directors Group and CMT. Update report to Audit Committee planned for 11 April 2023. Incorporation into DD & SRR during 2022/23.
2.c.	Develop / put in place capacity for formal fraud investigation.	Head of Finance (June 2021)	Contract with Solihull Council (SMBC) to provide this capacity for an initial 2 year period. To be extended for a further year.
2.d.	Consider areas of publication of proven fraud / corruption (Q8 & 20).	SMBC fraud capacity (September 2022)	Areas of proven fraud / corruption are published where relevant e.g. Insurance. Work underway alongside 2.e below.
2.e.	Consolidated reporting of fraud related statistics		Review ongoing, outcome to be incorporated into the work for item 2.d. above. Capacity has been focussed on risk assessments and fraud related statistics are being collated alongside this. Revised deadline of Summer 2023.

Ref	Implementation Action Plan	Responsible Officer and Associated Timing	Current Position
2.f.	Explore data matching and data analytics opportunities (Q28 & Q29)	Head of Finance / SMBC	<p>NFI data matching in place. Additional matching opportunities being reviewed. To be incorporated into 2.d/2.e.</p> <p>Completed every 2 years.</p> <p>Completed.</p> <p>Completed.</p>
2.g.	Formal reporting of NFI outcomes (Q30)	Internal Audit – in line with NFI timetable	
2.h.	Review of Anti-Money Laundering Policy and Arrangements and Criminal Finance Act. Consultation. Report to Audit Committee.	SMBC fraud capacity (April 2022)	
2.i.	Recruitment vetting - Consideration will be given to utilising additional checks, such as from Cifas Internal Fraud Database, a fraud prevention service.	Head of Finance and Head of HR (December 2021)	
3	Training:		<p>Completed - Fraud training session for Audit Committee members provided on 22 February 2022 and April 2023. Further ongoing training to be provided for new members when fraud risk assessment process complete (2.b above). All council members will receive an invite.</p> <p>See 2.b above.</p> <p>Completed. Review of training in hand.</p>
3.a.	Consideration of further training requirements for Audit Committee Members	SMBC fraud capacity (February 2022)	
3.b.	Fraud Awareness sessions with high risk services and review of their fraud risks. Outputs to inform an updated fraud risk assessment.	SMBC fraud capacity (to June 2023)	
3.c.	Roll out of e-learning training to Officers at G12 and above and all staff working with control systems staff, with requirement for annual undertaking.	Head of Finance and HR Training officers (April 2021)	
4	Annual Review and report to Audit Committee on planned and reactive activity. To ensure full compliance with Fighting Fraud Locally requirements.	Head of Finance – annually	On target – Formal update provided to Audit Committee in February 2022 and planned for June 2023 (alongside AGS).
5	Schedule further review / refresh / update of Policy	Head of Finance – every 2 years	Policy due for review April 2023.

High Level Fraud Awareness Training Plan

Theme	Content	Audience
Insider Risk	Fraud perpetrated by staff, to include: <ul style="list-style-type: none"> • Staff not undertaking duties due to remote working. • Staff having undeclared second employment. • Fraudulent recording of work activities • Fraudulent expense claims. • Use of council information or assets for personal gain. 	All staff at or above grade TBC.
Data Access & Security	Misuse of corporate data and information, such as: <ul style="list-style-type: none"> • Data manipulation. • Unauthorised access or data extraction. • Use of data for personal gain. • Inappropriate data sharing. 	All staff at or above grade TBC. IT Security and information Governance teams.
Financial Management	Diversion or misappropriation of funds, caused by: <ul style="list-style-type: none"> • Poor finance reporting facility. • Poor cash management. • No reconciliation of income or expenditure. • Regular staff changes. • Reconciliation of Purchase Card usage. • Multiple orders used to circumvent authorisation limits. • Administration of grants and external funds. 	All staff who: <ul style="list-style-type: none"> • Have budget responsibility. • Authorise transactions. • Assess, oversee or verify direct payments. • Have purchase cards. • Allocate or oversee grant funding.
Recruitment	Employment of unsuitably experienced or qualified staff: <ul style="list-style-type: none"> • False information on applications. • Supplying false references. • Ineligibility to work in the UK. • Proxy candidate attending interview. 	All staff who have responsibility for recruiting new employees.

Theme	Content	Audience
	<ul style="list-style-type: none"> • Non-disclosed relationship between candidates and staff or members. • Framing job description for the benefit of a specific candidate. • Sharing questions in advance of interview. 	
Corporate Finance	<p>Control of key data and processing of financial transactions:</p> <ul style="list-style-type: none"> • Accounts payable / receivable. • Supplier account management. • Debt management. • Asset disposal. 	Corporate finance teams.
Procurement / Commissioning & Contract / Project Management	<p>Selection of suppliers /service providers and oversight of associated costs:</p> <ul style="list-style-type: none"> • Poorly controlled procurement. • Proper assessment / verification of providers. • Inducements paid to staff for contracts. • Inflated prices in invoices from contractors. • Failure to supply goods or services. • Contract performance management. • Payment not matching invoice. • False or duplicate invoices. • Approval requests are post-purchase. • Limited suppliers in some areas 	<p>Procurement staff.</p> <p>Commissioning staff.</p> <p>Contract Managers.</p> <p>All staff with responsibility for oversight of, and delivery by, service providers and authorisation of costs.</p>
Payroll / HR Transactions	<p>Management of employee data and payments made to staff:</p> <ul style="list-style-type: none"> • Control of employee details, including new starters and leavers. • Staff payroll including additional payments. • Absence management. • Pensioner payroll. 	HR staff.

Theme	Content	Audience
Planning & Building Control	<p data-bbox="667 244 1272 316">Adherence to planning and building control regulations:</p> <ul data-bbox="667 336 1361 475" style="list-style-type: none"><li data-bbox="667 336 1361 400">• Inaccurate or incomplete applications or supporting information.<li data-bbox="667 405 1137 437">• Avoidance of checks and controls.<li data-bbox="667 442 1137 475">• Non-compliance with permissions.	Planning teams.