

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	14 February 2019
REPORT TITLE	Internal Audit Report AC1916 – Prevention of Fraud, Bribery and Corruption
REPORT NUMBER	IA/AC1916
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Prevention of Fraud, Bribery and Corruption.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Prevention of Fraud, Bribery and Corruption.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1916 –Prevention of Fraud, Bribery and Corruption.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



Internal Audit Report

Prevention of Fraud, Bribery and Corruption

Issued to:

Fraser Bell, Chief Officer – Governance
Jonathan Belford, Chief Officer – Finance
Isla Newcombe, Chief Officer – Organisational Development
Vikki Cuthbert, Assurance Manager
Brian Muldoon, Corporate Investigation Lead Officer
External Audit

EXECUTIVE SUMMARY

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines fraud as “Any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss” which includes many acts such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion.

The Council’s internal control environment, including the Scheme of Governance and policies and procedures, provide a measure of mitigation against the risk of fraud, however that risk cannot be wholly eliminated.

Recently, the National Fraud Initiative (NFI) reported results from investigations for 2016/17 for Scotland which confirmed an identified £18.6 million of fraud, and £301 million for the UK for the same period.

Investigations carried out by the Council’s own Corporate Investigation Team (CIT) have identified savings (actual and notional) of over £450,000 through identification and prevention of fraud in 2017/18.

The objective of this audit was to provide assurance that the Council’s arrangements for the prevention of fraud, bribery and corruption are adequate and proportionate. In general, this was found to be the case.

Improvements have been recommended to enhance consistency between, and application of, policies including Financial Regulations and Gifts and Hospitality, in respect of cross references and authorisation controls. Finance is carrying out a review of Financial Regulations and will include relevant amendments.

The Council’s Fraud, Bribery and Corruption policy requires Chief Officers to ensure fraud risk assessments are carried out on posts and activities within their areas of responsibility, and that training is provided as appropriate. Employees are also required to declare potential conflicts of interest to their line manager. There is, however, no system in place to evidence these activities taking place. Officers will be reminded of the requirements and this will be followed up to ensure they are being completed.

1. INTRODUCTION

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines fraud as “Any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss” which includes many acts such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion.
- 1.2 The Council’s internal control environment, including the Scheme of Governance and policies and procedures, provide a measure of mitigation against the risk of fraud, however that risk cannot be wholly eliminated.
- 1.3 Recently, the National Fraud Initiative (NFI) reported results from investigations for 2016/17 for Scotland which confirmed an identified £18.6 million of fraud, and £301 million for the UK for the same period.
- 1.4 Investigations carried out by the Council’s own Corporate Investigation Team (CIT) have identified savings (actual and notional) of over £450,000 through identification and prevention of fraud in 2017/18.
- 1.5 The objective of this audit was to provide assurance that the Council’s arrangements for the prevention of fraud, bribery and corruption are adequate and proportionate. This involved a review of procedures, and contacting Services to identify existing practice and identified instances of fraud. The audit did not examine investigations carried out by the CIT.
- 1.6 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Fraser Bell, Chief Officer – Governance; Jonathan Belford, Chief Officer – Finance; Isla Newcombe, Chief Officer – Organisational Development, Vikki Cuthbert – Assurance Manager, and Brian Muldoon, Corporate Investigation Lead Officer.

2. FINDINGS AND RECOMMENDATIONS

2.1 Policy and Written Procedures

- 2.1.1 The Council's Fraud, Bribery and Corruption policy was last updated in 2018 and is reviewed or updated every 2 years. The Whistleblowing policy was last updated in 2016 and is reviewed or updated every 3 years. There is also a Gifts and Hospitality procedure, last reviewed in 2014. These policies and procedures provide details on types of fraud, how to report fraud, the prevention and detection of fraud, and the investigation that will be carried out. Each is accessible for staff via the Zone.
- 2.1.2 The Gifts and Hospitality procedure advises that offers of gifts or hospitality must be authorised prior to acceptance. The Financial Regulations does not reference a separate procedure (as it does for e.g. Fraud, Bribery and Corruption) and does not indicate a requirement for prior authorisation. This difference could cause inconsistencies in practice.

Recommendation

Finance should ensure that the information in the Gifts and Hospitality procedure and Financial Regulations is consistent.

Service Response / Action

Agreed. This has been flagged as a task to be undertaken as part of a planned review of Financial Regulations.

Implementation Date

March 2019

Responsible Officer

Finance Partner

Grading

Important within audited area

- 2.1.3 The Corporate Risk Register (September 2018) included "Risk that the Council is exposed to fraud, bribery and corruption". An assessment of this is carried out regularly, detailing the potential impact, causes and controls in place. This also reviews the impact and likelihood of this risk occurring; the impact is measured from negligible to very serious and likelihood from almost impossible to very high. In September 2018, the impact was recorded as very serious and the likelihood low, reducing to very low after implementation of mitigating controls. The Service has stated that risk has since been de-escalated from the Corporate Risk Register to Governance Cluster level due to controls in place being considered 'fully effective' by management, and this will be subject to regular review.
- 2.1.4 Under the Fraud, Bribery and Corruption policy, Chief Officers are responsible for ensuring that risk management arrangements are in place in their Service area to prevent, detect and prohibit fraud, bribery and corruption. Risk assessments should be undertaken for each of the Council's key business activities with individuals identified who may be at most risk of being exposed to bribery. This includes those involved in high value projects, purchasing products and services, making recommendations to committees, and in overseas activities etc. Training should then be provided to appropriate employees who have been identified through risk assessment as being at potential risk of exposure to bribery, through an On-line Interactive Learning (OIL) course.
- 2.1.5 Whilst training is available, including reference to fraud reporting in the corporate induction, there is no register of posts considered to present higher risk of fraud or bribery. There is also no reference to these areas of risk within the Governance or other Cluster risk registers provided to Committees in November 2018 and January 2019 – as these do not include the risks de-escalated and kept under management review.

Recommendation

Services should ensure that Service and post fraud and bribery risk assessments are being completed, with results held centrally and referenced in their risk registers.

Service Response / Action

Partially agreed.

Chief Officers are responsible for ensuring fraud risk assessments are carried out on posts and activities within their areas of responsibility, and that training is provided as appropriate. The Policy does not require a central register, and to create and manage such a list would require resources which are not available for this purpose, and would duplicate existing Chief Officer responsibilities.

Chief Officers will be reminded of the requirement to risk assess posts and activities in order to prioritise fraud and bribery training, and will be provided with guidance on how to do this. Compliance with this requirement will be monitored through each Chief Officer’s Cluster risk register.

Implementation Date

June 2019

Responsible Officer

Corporate Investigation
Team Manager

Grading

Significant within audited
area

- 2.1.6 The policy also states that Council employees must declare any possible conflict of interest they have to their line manager. However, there is no register of employee’s interests to demonstrate that this is taking place, to determine where this might pose a risk, and to set out any mitigating controls put in place as a result.

Recommendation

The Council should implement a process to record and where appropriate address potential employee conflicts of interest.

Service Response / Action

Agreed.

There is a register of conflicts of interest in existence in the Council for all Chief Officers/Directors/Chief Executive, whereby they are requested annually to update their declaration form listing any relevant interests that may conflict with their role. That was put in place following a recommendation of the Governance Review.

The Employee Code of Conduct states that any private interest an employee has relating to the work of the Council must be declared to their line manager. The Code of Conduct links to the employment contract, being a Council policy, so it would be for the line manager to assess (with advice where required) whether a declared interest had a bearing on the work of the Council and if so what measure(s) would need to be put in place to address this. In the event of misconduct relating to interests being found not to have been declared, relevant action will be taken.

Implementation Date

Implemented

Responsible Officer

Chief Officer –
Governance

Grading

Significant within audited
area

- 2.1.7 Other policies that reference fraud, bribery and corruption are the Employee Code of Conduct, Financial Regulations, Procurement Regulations, and Managing Discipline.

2.2 Fraud Recording

- 2.2.1 The Corporate Investigation Team (CIT) was set up in 2015 and is responsible for investigating reports of fraud, bribery or corruption. The CIT includes staff with relevant expertise in counter fraud and investigation work. Internal and external (e.g. from members of the public) fraud allegations are routed via the website and a dedicated telephone number through to the CIT, given consideration, prioritised and where appropriate investigated. The CIT records all action taken, and prepares an annual report of its activity, including details of its role, referrals and cases opened, potential savings generated, and key areas of fraud identified.
- 2.2.2 The CIT supports Services with specific advice where required, and makes information available on the Zone which details what they do, types of fraud that can occur, and the ways in which they could occur. This information was last updated in July 2017, and the CIT has indicated an intention to update it to reflect current risks when resources, currently allocated to investigations, are available.

2.3 National Fraud Initiative

- 2.3.1 The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. It means that public bodies can take action if any fraud or error has taken place, and it allows auditors to assess fraud prevention arrangements which those bodies have.
- 2.3.2 Councils are requested to upload specific datasets to a secure portal for review, and thereafter data matches are highlighted and returned for further investigation. Within the Council, the CIT lead officer is responsible for the operational delivery of the NFI with the Chief Officer – Governance having overall responsibility. There is no specific deadline for reviewing data matches, however, should these highlight potentially fraudulent activity it will be beneficial to address these promptly. CIT works with relevant services to allocate appropriate staff to review possible irregularities. The CIT has committed to share progress updates with Internal Audit after NFI matches are released in January 2019.

2.4 Controls

- 2.4.1 Section 7 of the Council's Financial Regulations sets out that Chief Officers are responsible for maintaining an adequate system of financial control and are expected to communicate the expectations and duties of staff as part of a control environment. They are also responsible for ensuring that the major areas of an internal control framework are addressed and that weaknesses highlighted are acted upon. Staff are responsible for complying with the Council's internal controls. The Regulations further define internal control activities and provide advice on their design and implementation, but are not prescriptive due to the variety and complexity of processes and systems in place and associated risks across the Council. It is however stated that systems should include both prevention and detection activities.
- 2.4.2 In response to identified fraud risks and potential weaknesses, including those highlighted in reports from Internal Audit and the CIT, Services have put additional controls in place. These have been documented in previous Internal Audit reports, and agreed actions are followed up with responsible officers until implemented.

AUDITORS: D Hughes
C Harvey
R Brand

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.