Chelmsford City Council Audit and Risk Committee

15th March 2023

Counter Fraud Strategy Action Plan Update

Report by:

Audit Services Manager

Officer Contact:

Elizabeth Brooks, Audit Services Manager, elizabeth.brooks@chelmsford.gov.uk

Purpose

This report provides an update on the work undertaken in relation to the Counter Fraud Strategy Action Plan to March 2023.

Recommendations

Committee are requested to note the content of this report.

1. Introduction

1.1. The 2022-24 Counter Fraud Strategy was approved by Committee in December 2022 with a corresponding action plan outlining how the strategy will be delivered. This report provides an update on the work undertaken to March 2023.

2. Update on Actions

2.1. Updating the Council's Fraud Risk Register and undertaking a role-based Bribery and Corruption risk assessment, and reviewing any mitigating actions required arising from the assessments (see Appendix A).

2.1.1. The Council has already identified Fraud as a risk in its Principal Risk Register (PRR005 and has developed a detailed Fraud Risk and Control Assessment (FRCA), breaking down the Council's overall fraud risk into 20 risk areas/categories. These are defined predominantly by considering CIPFA's annual Counter Fraud and Corruption Tracker

Survey (CFACT) and Fighting Fraud and Corruption Locally (FFCL), and then adapted to suit the Council's circumstances.

2.1.2. The existing anti-fraud controls in place against each risk have been re-assessed in order to provide a current and more accurate risk rating, taking into account the independent assurance provided by relevant Internal Audit assignments mapped against the controls identified. The FRCA is intended to be a live document which will continue to evolve with oversight from Corporate Governance Group.

2.1.3. Where any existing control weaknesses are identified, further mitigations have been devised and as further relevant Internal Audit reports, or other sources of assurance, become available these will inform the control assessment, and therefore the current risk rating, in each fraud risk area.

2.1.4. The assessment also considers new and emerging fraud risks and has informed the Internal Audit planning process, ensuring that Internal Audit efforts in assessing anti-fraud controls and/or proactive anti-fraud reviews are directed to the highest risk areas.

2.1.5. In addition, a separate Anti-Bribery and Corruption role-based risk assessment is in the process of being developed to identify the roles in the Council most at risk of bribery and corruption by considering amongst other things levels of seniority, budgetary responsibility, influences over procurement arrangements and the general nature of their duties (e.g., access to information and data, influence over policy decisions). By being role-based, the assessment can identify where appropriate compliance arrangements are required regardless of whether the role is filled by a Member, directly employed Officer, agency, interim, contractor or consultant. Once identified, these roles can then be monitored to ensure transparency over decisions, and any conflicts or failures to disclose are managed appropriately, and also appropriate training can be directed/targeted according to the level of risk.

2.2. Producing a revised Fraud Response Plan aligned to the new Counter Fraud and Corruption Strategy, including specialist fraud areas such as Prevention of Money Laundering etc.

2.2.1. The Council's refreshed Fraud Response Plan outlines how allegations of fraud/wrongdoing should be handled, however they are raised. The Fraud Response Plan sets out the framework for escalation, investigation and reporting outcomes to ensure that issues raised are handled consistently.

2.2.2. In addition, a separate Prevention of Money Laundering Policy is included within the Fraud Response Plan as Anti-Money Laundering legislation has its own specific procedural and reporting requirements.

2.3. Reviewing the Council's Whistleblowing Policy.

2.3.1. The Council's Whisteblowing Policy is in place to enable concerns to be reported that relate to any unethical or unprofessional behaviour within the Council or by its contractors and suppliers. The Council has appointed the Director of Corporate Services as its designated

Whistleblowing Officer. The Legal and Democratic Services Manager and the HR Service Manager are responsible for dealing with reported cases in the first instance as deputies.

2.3.2. The Legal and Democratic Services Manager undertook a review of the Whistleblowing Policy in January 2023 and reported the outcome to Governance Committee to establish whether changes are necessary to ensure the Whistleblowing Policy is compliant with legal requirements. It was reported that some minor updates are necessary (e.g. to include the latest website links) but otherwise the current policy is compliant and goes further than minimum legal requirements. There is potential for further legislative changes to be made in this area and the policy would be further reviewed at that stage.

2.4. Developing and refreshing training and awareness activities for staff and Members to underpin an understanding of anti-fraud and corruption responsibilities.

2.4.1. Discussions are underway with HR regarding developing and rolling out a refreshed training and awareness programme for Councillors, permanent, temporary and casual employees and agency workers during 2023. It will be aligned to the new Counter Fraud Strategy, encompassing Anti-Bribery and Corruption, the new Fraud Response Plan, Anti-Money Laundering Policy and Whistleblowing Policy.

2.4.2. The programme will also be used for all new starters and Members as part of their mandatory induction training.

2.4.3. Following the completion of the Bribery and Corruption Risk Assessment, more targeted training for specific roles will be identified and arranged.

2.5. Developing an NFI operations protocol to ensure we are maximising the benefits of the exercises and participating in the most efficient manner

2.5.1. The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council is required to submit data to National Fraud Initiative on a regular basis. As the latest major exercise is currently taking place, with matches released in February 2023, an NFI protocol will now be developed.

2.5.2. The Council also participates in the Pan Essex Counter Fraud Data Matching System. This Counter Fraud Matching System is primarily used to identify Council Tax related fraud across Essex, which is investigated by Compliance Officers within the Revenue Service.

3. Next Steps

- Collating NFI and Transparency Code statistics and developing an NFI operations protocol to ensure we are maximising the benefits of the exercises and participating in the most efficient manner. Transparency Code data will also be updated at year-end

- Developing and roll out training and awareness activities for staff and Members to underpin understanding of anti-fraud and corruption responsibilities.

- Agree a communications strategy with the Chief Executive to brief all Councillors, permanent, temporary and casual employees and agency workers on their role and responsibility in preventing and detecting fraud and publicising the new suite of policies.

4. Conclusion

4.1. A more detailed update on Counter Fraud Strategy Action Plan is provided below.

List of appendices: Counter Fraud Strategy Action Plan Update

Background papers: None

Corporate Implications

Legal/Constitutional: The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015).

Financial: None

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit & Risk Committee, management and outside parties (e.g. External Audit) on the adequacy and effectiveness of governance, risk management, and control process for Chelmsford City Council.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: Management Team 21st February 2023

Relevant Policies and Strategies: None

Counter Fraud and Corruption Strategy Action Plan – Update

Q3 (to Dec 2022)

Action Ref	Action	Status
G1.1 to G1.4	*Produce Counter Fraud and Corruption Strategy, review by CGG, and approval from Management Team and ARC*	Complete

Q4 (Jan – Mar 2023)

Action Ref	Action	Status
G2.1 & A1.1	*Review and update risk assessment of the Council's activities susceptible to fraud and/or corruption*	Complete
G2.2 & A1.2	*Review and monitor including any additional actions required.*	Complete
G2.3 & A1.3	*Brief Management Team and Audit & Risk Committee on fraud risks and mitigation through Counter Fraud Report*	Complete
PRE1.2	*The roles within the Council (whether a Member, directly employed member of staff, agency, interim, contractor or consultant) most at risk of bribery and corruption will be identified and risk assessed by considering levels of seniority, budgetary responsibility, influences over procurement arrangements and the general nature of their duties.*	In progress
PRE1.4	*Develop training and awareness activities for new staff and Members (through induction) and existing staff and Members (through refresher training) to underpin understanding of anti-fraud and corruption responsibilities.*	In progress
PRE3.1, 3.2, 3.3	*Review Council's Whistleblowing Policy, review by CGG, and approval by Management Team and Audit & Risk Committee** **(*reviewed by Legal and Democratic Services Manager and reported to Governance Committee)**	Complete
PRE3.5	*Align training to new Counter Fraud Strategy and promote refresher training*	In progress
PRE5.1, 5.2, 5.3	*Produce Fraud Response Plan aligned to new Counter Fraud and Corruption Strategy and including specialist fraud areas i.e., Tenancy Fraud, Council Tax. Prevention of Money Laundering. review by CGG, and approval by Management Team and Audit & Risk Committee*	Complete
PRE6.1	*Produce an NFI operations protocol outlining roles and responsibilities for partaking in exercises, including prompt review of matches.*	In progress
PU2.1	*Internal Audit will align their Internal Audit Plan with Fraud Risk Assessment*	Complete
PU3.3	*CGG to consider engagement plan with external agencies.*	Complete
PU5.1	*Skills analysis to be undertaken by the CGG with training needs identified.*	In progress
PU5.3 and PRO1.3	*CGG to consider engagement plan with external support where required.*	Complete

Q1 (April to June 2023)

Action Ref	Action
PRE1.1	*Remind all staff and Members of their role and responsibility in preventing and detecting fraud through promotion of the Counter Fraud and Corruption Strategy.*
PRE1.3	*Remind service managers of their responsibility in monitoring these roles to ensure transparency over decision, and any conflicts or failures to disclose are managed appropriately.*
PRE1.4, PRE3.5	*Roll out training and awareness activities for new staff and Members (through induction) and existing staff and Members (through refresher training) to underpin understanding of anti-fraud and corruption responsibilities.*
PRE1.5	*Remind service managers of their responsibility for establishing and supporting an anti-fraud culture in their services, ensuring all their team members are aware of relevant policies and procedures relating to anti-fraud and bribery, code of conduct etc and adopting a robust control environment, including ensuring any internal audit recommendations are implemented promptly through inclusion in service plans to be monitored and actions reported locally.*
PRE2.2	*Remind service managers of their responsibility for undertaking due diligence to evaluate the background, experience, reputation of business partners.*
PRE3.4 & 5.4	*Promote awareness of new Strategy, Fraud Response Plan and Whistleblowing Policy internally and externally*
PRE4.1	*Remind service managers that new policies, procedures, strategies etc that may be connected to a fraud and/or corruption risk should be reviewed by the CGG for comments/amendments and to inform the Counter Fraud Risk Register.*
PU5.2	*Training undertaken as required (as identified by CGG) or identified skills gaps to be considered for inclusion in the fraud risk assessment.*

Q2 (July to September 2023)

Action Ref	Action
G3 & G4	*Present a regular report to Management Team and Audit & Risk Committee to compare the Council's progress against FFCL and Counter Fraud and Corruption Strategy to ensure that the Counter Fraud and Corruption Strategy is appropriate in terms of its fraud risk and resources.*
PRE2.1	*Review of Safer Recruitment procedures to ensure they mitigate fraud and corruption risks.*
PU1.1	*Transparency Code and NFI statistics will be collated annually and reported to Management Team and Audit & Risk Committee*
PU1.2	*Statistics will be reviewed by CGG to determine any trends/root causes and update Counter Fraud Risk Register accordingly.*
PU3.2	*CGG Counter Fraud activity will be included in the Counter Fraud Report to Management Team and Audit & Risk Committee.*
PRO2.1 & PRO2.2	*Fraud plan to be reviewed by CGG and included in the Counter Fraud Report to Management Team and Audit & Risk Committee.*

Appendix A - Fraud Risk and Control Assessment Summary – Current Risk from highest to lowest

Ref	Risk Title	Risk Event	Risk Score	Risk Rating	Approach to Mitigation
FRC 23_01	**Data theft and other cyber crime**	Data solicited or taken forcibly by external parties and/or used by insiders for personal gain, e.g., theft of personal data to perpetrate identify fraud.	18	Very High	Assessed as very high risk (in line with PRR) due to increasing external cyber threats and potential severe impact on the Council. Mitigation is through ongoing implementation of Cyber Security Action Plan. Risk is also monitored through PRR.
FRC 23_02	**Corporate property**	Purchase, sale or letting of property at anything other than market value/rate; provision of services without charge	16	High	Assessed as high risk due to potential severity of impact on the Council due to financial amounts involved. IA Review April 2023 will provide assurance on mitigating controls. Any arising actions to be monitored through IA Action Plan.
FRC 23_03	**Social housing & tenancy**	False applications, misallocation for personal gain, illegal subletting, secondary home use/abandonment, Right to Buy (indirect risk impacting local housing supply)	16	High	Mitigating actions will be monitored through IA Action Plan during 2023. Latest NFI results will be reviewed. External Fraud Support for Housing-related fraud, to be implemented.
FRC 23_04	**Procurement and contracting**	Collusion to distort fair an open competition, collusion between bidders, submission of false documents for payment, split contracts, collusion with contractors, post-award contract management etc.	14	High	Actions to be completed in 2023 per IA Procurement Report. IA KFS March 2023 to follow up prior year recommendations and consider Data Analytics for full data set testing. Development of relevant anti-fraud and corruption training and awareness per Counter Fraud Action Plan. Latest NFI results will be reviewed.
FRC 23_05	**Decision-making**	Corruption including bribery and improper influence, failure to declare conflicts/gifts, suppressing or providing false information to sway decisions or affect outcome	14	High	Role-based fraud, bribery and corruption risk assessment to enable a formal training and awareness plan to be targeted towards higher risk roles. Latest NFI results will be reviewed. Review of Whistleblowing Policy per Counter Fraud Action Plan.
FRC 23_06	**Payment fraud**	Diversion of payments, internally or following false requests (often cyber-enabled)	14	High	IA KFS March 2023 to consider Data Analytics for full data set testing. Development of relevant anti-fraud and corruption training and awareness per Counter Fraud Action Plan.
FRC 23_07	**Payroll and expenses**	False entries (e.g., ghost employees), inflation of payments, false claims for expenses and overtime, abuse of absence policies, IR35	14	High	IA Recruitment and Payroll Review 2023 and IA Use of Agency Review 2023 - any actions to be monitored through IA Action Plans. Latest NFI results will be reviewed.
FRC 23_08	**Recruitment**	False applications and identity fraud	14	High	IA Recruitment and Payroll Review 2023 and IA Use of Agency Review 2023 - any actions to be monitored through IA Action Plans.

Ref	Risk Title	Risk Event	Risk Score	Risk Rating	Approach to Mitigation
FRC 23_09	**Manipulation of data/ false accounting**	Omitting or making misleading, false or deceptive entries (e.g. performance, financial data etc.)	13	High	IA KFS March 2023 to consider Data Analytics for full data set testing.
FRC 23_010	**Income collection fraud – other**	Abuse of payment card data; invalid discount or other reduction in fees, invalid cancellation or refunds or write offs; fraudulently avoiding payment of debts	9	Medium	IA KFS March 2023 to consider Data Analytics for full data set testing.
FRC 23_011	**Theft**	Cash and equivalents e.g. funds via procurement cards and other assets for resale or personal use, including IT equipment, stores, fuel	9	Medium	IA Procurement Card Review 2023 - any actions to be monitored through IA Action Plan.
FRC 23_012	**No recourse to public funds**	False eligibility for housing allocation, homelessness support, housing benefit, council tax support	9	Medium	Mitigating actions will be monitored through IA Action Plan during 2023.
FRC 23_013	**Money laundering**	Exchanging money or assets that were obtained criminally for money or other assets that are 'clean'.	9	Medium	Consider money laundering training and awareness either separately or as part of wider Fraud Training and Awareness programme for staff, targeted towards higher risk roles.
FRC 23_014	**Misuse of Council assets**	Use of Council assets for personal gain at detriment to the Council (e.g. vehicles, buildings, parking spaces)	9	Medium	Review of Whistleblowing Policy per Counter Fraud Action Plan. Development of relevant anti-fraud and corruption training and awareness per Counter Fraud Action Plan.
FRC 23_015	**Housing Benefit**	False applications, including undeclared income or partners	7	Medium	IA review of HB - part of KFS 2023 - to assess effectiveness of assessment controls. Any actions to be monitored through IA Action Plan. Latest NFI results will be reviewed.
FRC 23_016	**Non-domestic rates**	Abuse of exemptions, discounts and reliefs (incl. Covid-19 sector-related), unlisted, vacant, extended premises, refund scams	7	Medium	IA review of BR - part of KFS March 2023 - Any actions to be monitored through IA Action Plan. Latest NFI results will be reviewed.
FRC 23_017	**Council tax**	Abuse of local council tax reduction support, single person and other discounts, refund scams, failure to register (Rising 18's)	7	Medium	IA review of Ctax - part of KFS March 2023 - Any actions to be monitored through IA Action Plan. Latest NFI results will be reviewed.
FRC 23_018	**Grants Received and Payable**	False claims to secure a grant or demonstrate terms may have been met, diversion of funds, abuse of position to award grants	7	Medium	Ongoing monitoring 2023

Ref	Risk Title	Risk Event	Risk Score	Risk Rating	Approach to Mitigation
FRC 23_019	**Insurance claims**	False or exaggerated claims (esp. personal injury)	7	Medium	Liaise with Insurance service.
FRC 23_020	**Voting fraud**	Fraudulent acts by voters, canvassers, poll clerks and officers, and/or count staff	3	Low	Assess any lessons learned post 2023 Elections