

**SURREY COUNTY COUNCIL****CABINET****DATE: 5 FEBRUARY 2013****REPORT OF: MS DENISE LE GAL, CABINET MEMBER FOR CHANGE AND EFFICIENCY****LEAD OFFICER: SUSIE KEMP, ASSISTANT CHIEF EXECUTIVE****SUBJECT: SURREY COUNTY COUNCIL STRATEGY AGAINST FRAUD AND CORRUPTION****SUMMARY OF ISSUE:**

The National Fraud Authority (NFA) estimates that fraud in local government amounts to some £2.2bn per year. In the public sector every pound lost through fraud is a pound taken from taxpayers and impacts on the provision of frontline services. The NFA published a Local Government Strategy "Fighting Fraud Locally" in April 2012. This Strategy has been embraced by Surrey County Council as best practice against which our counter-fraud culture can be assessed and strengthened.

Surrey County Council is alert to the risk of fraud and has adopted a zero tolerance approach. This report sets out the work that is being undertaken to ensure a robust counter-fraud culture across the Council and asks the Cabinet to endorse the Council's revised Strategy against Fraud and Corruption (attached at Annex 1) which has been updated to include a Fraud Response Plan in line with best practice.

**RECOMMENDATIONS:**

It is recommended that:

1. the updated Strategy against Fraud and Corruption be endorsed; and
2. the work of Internal Audit in raising awareness of the risk of fraud and corruption across the Council be endorsed.

**REASON FOR RECOMMENDATIONS:**

To shape the Council's existing practices to take account of best practice as set out in the Local Government Fraud Strategy "Fighting Fraud Locally" thereby continuing to protect the public purse through reducing the risk of fraud and corruption.

**DETAILS:****Background**

1. The National Fraud Authority (NFA) was set up in 2009 to provide a strategic focus on fraud across all sectors in the country. The NFA launched a Local Government Strategy "Fighting Fraud Locally" (FFL) in April 2012.

2. The FFL Strategy refers to the 2012 Annual Fraud Indicator that suggests that across local government in the UK there is £900 million in housing tenancy fraud, £890 million in procurement fraud, over £153 million in payroll fraud, £46 million in “blue badge” fraud, £41 million in grant fraud and £5.9 million in pension fraud.
3. The FFL Strategy includes various tools for local authorities to use as a standard to measure themselves against. In July 2012 the Chief Internal Auditor reported the outcome of a self-assessment exercise - using the FFL checklist - to the Chief Executive chaired, Quality Board, which endorsed the actions being taken to further develop a counter-fraud culture in Surrey County Council. A further follow-up report on the “Fighting Fraud Locally” Strategy was presented to Audit and Governance Committee in October 2012.
4. Anecdotal evidence suggests that in times of economic hardship the risk of fraud rises. A recent survey of local authorities, carried out by PKF, (a leading firm of accountants), suggests that fraud resilience across UK local government has declined in recent years. PKF report that overall the UK local government sector achieved a mean score of 35.1 for fraud resilience, out of a possible score of 50. This is a significant reduction on the sector’s rating of 38.1 in 2010.
5. Surrey County Council is alert to the risk of fraud and has adopted a zero tolerance approach as set out in the Strategy against Fraud and Corruption (attached at Annex 1). The Council is proactive in raising awareness of the risk of fraud and properly investigates suspected incidents, making recommendations to improve controls as necessary. The Council is also proactive in counter-fraud work – a summary of more recent activity undertaken in this area is set out below.

## Fraud Prevention

6. In response to the National Fraud Authority’s “Fighting Fraud Locally” Strategy the Internal Audit team completed a **fraud risk assessment** of the main areas of Council activity. As a result Internal Audit is acting as a fraud risk facilitator to management in the following areas of Council activity, which were identified as inherently 'higher risk': procurement, contract delivery, financial charging and assessment, direct payments and Shared Service Centre processing.
7. This facilitation has already resulted in the Council's Procurement Service completing a self-assessment of its arrangements against guidelines to identify and eliminate the risk of procurement fraud produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). Most of the expected controls were found to be in place but where gaps were identified, these are being addressed primarily through the newly established Procurement Sourcing Team.
8. Internal Audit has also been proactive in **ensuring key policies are “fraud proofed”**. To assist this process a checklist has been developed covering such aspects as income generation; payments; safeguarding assets; and controls over cash and bank accounts. In the first instance this checklist has been shared with the HR and OD Service as the originators of many of the Council’s key corporate policies and a representative from Internal Audit has

been invited to attend a working group which will examine how to fraud proof HR policies.

9. As part of the work to produce the **Annual Governance Statement**, officers responsible for corporate governance policies (corporate policy custodians) must confirm on an annual basis that their policy is up to date and that any changes have been approved and communicated appropriately. As part of this process for 2012/13 onwards the policy custodian is now asked to consider whether any additional action is required to ensure their policy contributes to the Council's zero tolerance of fraud.

### **Counter-Fraud Work**

10. In October 2012 the Council supplied data as part of the Audit Commission's **National Fraud Initiative (NFI)**. The results of this data matching exercise which matches Council data with other local authorities as well as some central government databases are currently awaited but previous NFI exercises have led to the successful prosecution and dismissal of employees in cases of identity theft, illegal immigration status and/or unauthorised multiple employments.
11. The Council's Internal Audit team carry out a programme of data interrogation exercises, including sophisticated checks of SAP data to check for possible duplicate payments. The recent appointment of an IMT auditor will increase the Council's capacity to proactively search for anomalous or irregular transactions using **data mining techniques**. These techniques analyse large volumes of data to identify patterns, duplicates or significant variances dependent on the type of data being reviewed.
12. Collaborative working with District and Borough partners has established a solid basis for combating fraud in **Single Person Discounts for Council Tax** whilst strong liaison with bodies such as the London Audit Group has helped to generate innovative approaches to counter- fraud work – a recent example being links with Ealing Council to find out more about their recruitment vetting processes.

### **Reporting and Investigating Fraud**

13. The Council has a clear process for reporting and investigating allegations of fraud and corruption as set out in the **Strategy against Fraud and Corruption**. The Strategy now includes a fraud response plan which sets out what action should be taken in the event of a fraud. Twice a year a report summarising Internal Audit involvement in irregularity investigations is presented to the Audit and Governance Committee in line with best practice.
14. The Council's **Whistle Blowing Policy** complements the Strategy against Fraud and Corruption and provides an independent confidential telephone reporting service. The Whistle Blowing Policy recognises and appreciates that staff who raise concerns regarding malpractice or wrongdoing are an asset to the Council, and not a threat. This policy encourages and enables staff to raise serious concerns and aims to protect staff when they raise a concern. Twice a year a report on whistle blowing activity is presented to Audit and Governance Committee.

## **Communication and Training**

15. To support the launch of the revised Strategy against Fraud and Corruption and **new fraud awareness e-Learning training** there will be an internal communications campaign, commencing this quarter, using S:Net and other media as well as presentations to service managers and staff.
16. Internal Audit has also **worked closely with schools** in raising awareness of the risk of fraud. This activity has included:
  - providing training for new Head Teachers and School Business Managers;
  - presenting at School Business Manager/Bursar briefings;
  - regular articles in the Schools Bulletin;
  - issuing a pamphlet setting out frauds and scams that have been targeted at schools nationally; and
  - advising schools and governors on an ad hoc basis.
17. Raising fraud awareness is key in developing and maintaining an anti fraud culture and so this work is necessarily on-going.

### **CONSULTATION:**

18. A report on “Fighting Fraud Locally”, which included the revised Strategy against Fraud and Corruption, was presented to Audit and Governance Committee in October 2012. The Strategy was also presented at a meeting of the officer Governance Panel in November 2012.
19. A paper showing progress to date in promoting a counter-fraud culture across the Council was presented at Quality Board in November 2012. It resulted in a request to the Chief Internal Auditor to continue to progress the implementation of the Fighting Fraud Locally Strategy.

### **RISK MANAGEMENT AND IMPLICATIONS:**

20. Raising awareness of the risk of fraud will contribute to better internal control and protect the public purse

### **Financial and Value for Money Implications**

21. There are no additional costs associated with implementation of the revised Strategy against Fraud and Corruption.

### **Section 151 Officer Commentary**

22. Austerity is set to continue for some years, potentially increasing the risks of fraud, making a robust Fraud Strategy even more imperative to ensuring sound use of Council resources. The Section 151 Officer confirms that there are no additional costs to the implementation of this strategy.

### **Legal Implications – Monitoring Officer**

23. There are a number of relevant statutory provisions which are referred to in the attached Strategy.

### **Equalities and Diversity**

24. The Strategy against Fraud and Corruption sets out the Council's approach to preventing and dealing with allegations of fraud. As such the policy is considered to have neutral impact on all groups. The completed Equality Impact Assessment for this policy is attached at Annex 2.

### **WHAT HAPPENS NEXT:**

25. A fraud awareness communications campaign will commence this quarter to raise awareness of the policy and the fraud awareness training.
26. Internal Audit will continue to provide half yearly updates to Audit and Governance Committee on irregularity investigations completed and counter fraud work undertaken.

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#### **Contact Officer:**

Sue Lewry-Jones, Chief Internal Auditor Tel: 020 8541 9190

#### **Consulted:**

Audit and Governance Committee

Sheila Little, Chief Finance Officer and Deputy Director for Change & Efficiency

Ann Charlton, Head of Legal and Democratic Services

Liz Lawrence, Head of Policy and Performance

Quality Board

Governance Panel

#### **Annexes:**

Annex 1: Council's Strategy Against Fraud and Corruption

Annex 2: Equality Impact Assessment

#### **Sources/background papers:**

- The Local Government Fraud Strategy – Fighting Fraud Locally
- Fighting Fraud Locally – report to Audit and Governance Committee October 2012
- PKF 2012 Report: The resilience to fraud of the local government sector.

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