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INTERNAL AUDIT REPORT



Counter Fraud General Arrangements 2014-15

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Counter Fraud General Arrangements 2014-15

EXECUTIVE SUMMARY

1. Introduction and overall opinion

Robust and effective counter fraud arrangements are essential to safeguard public funds and assets and ensure resources are available for their intended purpose. The Head of Legal and Democratic Services is responsible for maintaining an up to date Counter Fraud Strategy and a Fraud Response Plan. The counter fraud arrangements are reviewed annually by Internal Audit. The assurance rating for the 2013/14 audit was 'Sufficient Assurance' and the report included nine recommendations for improvement.

The purpose of this report is to provide assurance that the Council has appropriate arrangements for preventing, detecting and responding to fraud and corruption, and to provide assurance that ethical governance arrangements are sound.

The key risks relating to counter fraud arrangements were identified by officers and internal audit at the planning stage as follows:

- the Council fails to implement recommendations arising from the 2013/14 audit report;
- the Council lacks capacity to respond to non-Housing Benefit fraud following transfer of responsibilities to the Department for Work and Pensions (DWP); and,
- the Council does not have effective ethical governance arrangements in place.

Overall, there is a sound framework in place through policies, procedures and codes of conduct to manage the fraud risks at the Council. Complaints are being appropriately investigated and Members and officers are declaring interests in a formally recorded way.


There are some minor weaknesses in record keeping and updating of terminology within the policies. Good progress has been made towards compliance with the Transparency Act through publication of the required data on the Council's website. There were, however, still some gaps in the published information after the deadline of 2nd February 2015 which need to be addressed.

Based upon the testing completed, it is Internal Audit's opinion that the design and operation of controls provides **sufficient assurance** that the control framework includes key controls that promote the delivery of service objectives, and that those controls are mostly operating as designed, with some room for improvement.

The audit was carried out in line with the scope set out in the approved Audit Planning Record (appendix 3).

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The opinion is based upon testing of the design of controls to manage the risks identified by management and to confirm the extent of compliance with those controls, as summarised below.

Internal Audit Assurance Opinion	Direction of Travel				
Sufficient Assurance					
Risk	Design	Comply	Recommendations		
			H	M	L
Risk 1. Failure to implement previous internal audit recommendations	N/A	Sufficient Assurance	0	0	0
Risk 2. Lack of capacity to respond to non-Housing Benefit fraud following transfer of responsibilities to the DWP	Sufficient Assurance	N/A	0	0	0
Risk 3. Ineffective ethical governance arrangements	Substantial Assurance	Sufficient Assurance	1	1	3
Total number of recommendations			1	1	3

2. Summary of findings

Risk 1 – The Council fails to implement recommendations arising from the 2013/14 audit report

There were ten recommendations relating to counter fraud arrangements, nine from the 2013/14 report and one from a different internal audit report relating to counter fraud arrangements. Six have been confirmed as completed. Evidence of progress was received for the remaining four. Progress with recommendations made in previous reports is adequate and will reduce the risks identified.

Based on this evidence, the assurance rating for compliance with controls is **sufficient assurance**.

Risk 2 - The Council lacks capacity to respond to non-Housing Benefit fraud following transfer of responsibilities to the DWP

A bid for funding from the Department for Communities and Local Government (DCLG) was led by Leicester City Council and was successful in obtaining funding for the continuation of some form of corporate fraud service. This should be able to provide some fraud investigation resource and resilience for the Leicestershire Partnership. This is still at the early stages and progress will need to be monitored by the Corporate Director - Resources.

For this reason, the assurance rating for the design of controls is **sufficient assurance**.

Risk 3 - The Council does not have effective ethical governance arrangements

The Council has established a web page to meet its obligations under the Transparency Code. The Council already publishes a range of information. As at 4th March 2015 however, there was still some required information that was not available on the Council's website. The deadline for publication was 2nd February 2015.

A new Local Code of Conduct has been developed and agreed in accordance with best practice and requires Members to sign a declaration that they have read and understand it. . The context of conflicts of interest and appropriate behaviour are described clearly, with examples for Members to refer to. .

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The officer and Member Codes of Conduct are included in the Council's Constitution and provide details of how interests can be declared. The codes are comprehensive, but do not necessarily provide guidance or examples of what a personal interest might be. The officers' code does extend to cover behaviours and disclosures around letting contracts, relationships with contractors, and relationships with councillors. It also covers expectations regarding managing the Council's resources and any outside interests, volunteering or employment that may conflict with their role as a Council officer. The induction handbook for officers includes reference to reporting interests, gifts and hospitality.

The Council has appropriate arrangements, including a formal protocol, for managing complaints about the conduct of Members in an independent and objective way.

For these reasons, the assurance rating for the design of controls is **substantial assurance**.

Example cases of complaints against Members were reviewed and confirmed that the protocol for investigating the complaint had been followed, although the files examined did not always contain all the appropriate information in one place.

A review of the website confirmed that of 37 Members, 35 had completed forms to declare interests. Most forms had been completed and uploaded to the website during 2012, as this was when it became mandatory to disclose the information in this way. There was evidence that Members had submitted amendments since their original form had been completed. One Member had been elected in 1999 but had not completed a form until July 2013. A further Member had been elected in May 2003 but had not completed a form until October 2013. Two Members (both elected in May 2011) did not have completed declarations on their website profile. There was also limited consistency in how the forms had been completed, for example, some Members had omitted any response in the 'Sensitive Issues' section.

Any gift or receipt of hospitality over £5 should be declared on a form to the Monitoring Officer. There were nine declarations of receipt of gifts during the calendar year 2014, all for low value items received. It is difficult to identify whether all information is captured, as the completeness of the records depends on officers and Members being aware of their responsibilities under the codes. It was not explicit in the Codes whether refusal of offered gifts or hospitality should be recorded. The most appropriate way to ensure awareness is regular use of the Core Brief sessions to remind officers of their obligations.

Based on this evidence, the assurance rating for compliance with controls is **sufficient assurance**.

The action plan included in this report contains recommendations to address weaknesses identified (appendix 1).

3. Limitations to the scope of the audit

The audit and associated testing was limited to the risks noted above and does not provide absolute assurance that material error, loss or fraud does not exist.

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Appendix 1

ACTION PLAN

Risk 3: The Council does not have effective ethical governance arrangements						
Rec No.	ISSUE	RECOMMENDATION	Management Comments	Category	Officer Responsible	Due date
1	<p>The deadline of 2nd February 2015 was not met for upload of all the required information to the Council's website to comply with the Transparency Act.</p> <p>Examples not published were:</p> <ul style="list-style-type: none"> • Local Authority Land • Grants to voluntary, community and social enterprise organisations • Parking Account • Details of bonuses and 'benefits-in-kind' for all senior employees whose salary exceeds £50,000 • Fraud - details of counter fraud work and associated staffing 	<p>The Head of Legal Services should review the Transparency pages and make arrangements to ensure that the remaining required information is made available as soon as possible to reduce the risk of failing to comply with the Transparency Act, which may lead to negative publicity and financial penalties.</p>	<p>The Head of Legal Services is aware that some information is not yet available on the website. Agreed to reconvene the Transparency Task Group to get this completed.</p> <p>Meeting arranged for w/c 23.03.2015. Completion Report to be submitted to Corporate Management Team on 01.04.2015.</p>	High	Head of Legal Services	31 March 2015
2	<p>The roles and responsibilities for the Monitoring Officer are clearly documented in the Constitution including reference to the relevant statutes that apply to the role. It was noted that there are still references to both the Standards Board for England and District Audit, both of which are bodies that no longer exist.</p>	<p>The Head of Legal Services should review the Constitution and remove references to external bodies that no longer exist such as the Standards Board and District Audit / Audit Commission.</p>	<p>Agreed. This housekeeping issue will be worked into current review of Constitution.</p>	Low	Head of Legal Services	30 June 2015
3	<p>The files examined for two complaint cases against Members were not complete, with one report or appendix in each case being referred to in other documents, but not saved in the file. The missing documents</p>	<p>The Head of Legal Services should consider whether record keeping could be improved by a second person reviewing the case file once closed, to ensure all main documents referred to in the case have been filed in the appropriate</p>	<p>Agreed to consider how best to review files, may use a checklist or designate a person to ensure files are complete and secure at the</p>	Low	Head of Legal Services	30 June 2015

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Risk 3: The Council does not have effective ethical governance arrangements						
Rec No.	ISSUE	RECOMMENDATION	Management Comments	Category	Officer Responsible	Due date
	were located elsewhere in order to complete the audit.	secure folder.	end of any complaint investigation.			
4	Some inconsistencies existed in completion of the Members' declaration of interest forms, especially in relation to the section on 'Sensitive Issues', where no declaration had been made either way. Forms for two Members were absent from their website Member profiles.	The Head of Legal Services should arrange to chase up the two Members who have not completed forms, and ensure appropriate review of forms for consistency and completeness following a refresh of all Members' forms after the election in May 2015.	Agreed. Declaration forms must be completed by elected Members within 28 days of election. The Head of Legal Services will ensure review of forms for consistency and completeness and arrange for a check to be undertaken to ensure upload to the website is complete.	Medium	Head of Legal Services	30 June 2015
5	There were only nine declarations of receipt of gifts during the calendar year 2014. It is difficult to identify whether all information is captured, as the completeness of the records depends on officers and Members being aware of their responsibilities under the codes. All but two of the declarations were by officers receiving small gifts from Members. The remaining two were sponsored places at the Municipal Journal awards dinner. The current Codes do not refer to recording and reporting where an offer of a gift or hospitality has been offered but declined.	The low numbers of declarations may indicate a limited awareness about the requirements to declare gifts or hospitality. The Head of Legal Services should continue to use Core Brief to remind staff (say twice a year) of the guidance and how to declare a gift. The Codes of Conduct should be updated to be explicit that all offers of gifts and hospitality should be recorded, even if they are declined. This may help to identify if there is any pattern of inappropriate behaviour by suppliers, officers or Members.	Agreed to continue to raise awareness. This will be included within the Induction Programme for Members in May 2015. A revised Code of Conduct (including Register of Interests) is being considered by Council on 30 th March 2015. This includes the option to declare gifts not accepted. However this will be voluntary as there is no explicit	Low	Head of Legal Services	31 Dec 2015

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Risk 3: The Council does not have effective ethical governance arrangements						
Rec No.	ISSUE	RECOMMENDATION	Management Comments	Category	Officer Responsible	Due date
			legislation to establish mandatory declaration of offered gifts that have been declined.			

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Appendix 2

GLOSSARY

The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

Level	Design of Control Framework	Compliance with Controls
SUBSTANTIAL	There is a robust framework of controls making it likely that service objectives will be delivered.	Controls are applied continuously and consistently with only infrequent minor lapses.
SUFFICIENT	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
LIMITED	There is a risk that objectives will not be achieved due to the absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls.
NO	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.

Category of Recommendation

The Auditor categorises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Category	Impact & Timescale
HIGH	Management action is imperative to ensure that the objectives for the area under review are met. Recommendation to be implemented immediately with explanation to the Governance and Audit Committee should timeframe extend beyond three months.
MEDIUM	Management action is required to avoid significant risks to the achievement of objectives Recommendation should be implemented as soon as possible with explanation to the Governance and Audit Committee should timeframe extend beyond six months
LOW	Management action will enhance controls or improve operational efficiency. Recommendation should be implemented within six months but Governance and Audit Committee be advised where the client specifies that a longer delivery time is necessary and / or justified.

Limitations to the scope of the audit

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.