

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANTI- FRAUD WORK

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 The purpose of this report is to summarise:

- the findings of the evaluation of the council's current position in relation to the Chartered Institute of Public Finance and Accountancy (Cipfa) requirements for counter fraud; and
- the arrangements in place to allow the Audit Committee to exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

2. BACKGROUND INFORMATION

2.1 North Lincolnshire Council has a proven track record of sound internal control, financial probity and management of resources. Good internal controls exist to deter, prevent and detect fraud, and there are a number of effective methods for customers and staff to refer suspected fraud for investigation. The council therefore has a track record of dealing effectively with cases as they occur and reducing the likelihood of further cases. Our fraud experience has been relatively infrequent and of a low value. This is substantiated through the National Fraud Initiative (NFI), which provides potential fraudulent data matches for the council to investigate. The last NFI exercise, returned fewer cases than would be expected of an authority this size and investigations revealed few instances of actual frauds that had occurred.

2.2 However the council is not complacent and is always seeking to improve arrangements for combating fraud. An opportunity for improvement was identified as part of the assessment of the effectiveness of the Audit Committee, reported in April 2008. The assessment included a requirement for the Audit Committee to assess counter fraud arrangements against the Cipfa publication "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption". Members asked the Audit and Risk Manager to evaluate current counter fraud arrangements against best practice as defined in the publication.

- 2.3 The guidance describes what action is needed for an organisation to be effective in countering fraud and corruption and is framed to meet the specific requirements of each organisation.
- 2.4 Formulating answers and evaluating the results is aimed to address the following 'crucial' areas:
- the key elements of a proper strategic approach
 - the accurate identification of risks
 - the creation and maintenance of a strong structure
 - the range of action needed to tackle the problem
 - the definition of success.
- 2.5 Internal Audit have evaluated the council's current arrangements in relation to the council's circumstances of low fraud activity as highlighted above. This exercise showed that most requirements are being fully or partially met. There are a number of areas where some improvement could be made to ensure the appropriate level of compliance for the council, these include;
- Identifying the link the Anti Fraud, Theft and Corruption Strategy has to the achievement of the council's ambitions
 - Comparing the cost of experienced fraud with the cost of counter fraud arrangements and investment
 - Reviewing our approach to investigations, considerations of sanctions available, and training and guidance provided
 - Framework agreements and improved liaison arrangements with external agencies
 - Better publicising of successes.
- 2.6 Further work is required to consider the above in detail and this has already been included in the agreed 2008/09 Audit Plan. Resources have been set aside to assess the council's potential areas of risk from fraud, corruption and money laundering, review investigation procedures, and review and raise awareness of the council's Anti Fraud Theft and Corruption Strategy. CIPFA's publication will be used as the basis for determining the full scope and remit of the audit. The outcome of this work will be reported back to the Committee in September 2008.
- 2.7 Both management and 'those charged with governance' have primary responsibility for preventing and detecting fraud. Either as a result of:
- The intentional misappropriation of the council's assets (cash, property etc.): and

- The intentional manipulation or misstatement of the financial statements.
- 2.8 The Audit Committee has a vital role to promote the council's counter fraud arrangements across the council and applies to all key processes and policies. This is also recognised in the Committee's terms of reference. One of the most important roles the Committee carries out is the approval of the council's accounts. External audit are required under their Code of Audit Practice and compliance with International Standards for Auditing to ascertain the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.
- 2.9 Their professional Code requires the Audit Commission to ascertain how Audit Members discharge their responsibility for the prevention and detection of fraud in key processes. Appendix A lists the significant issues External Audit are required to assess and the council's arrangements to address these.

3. OPTIONS FOR CONSIDERATION

- 3.1 The first option is to remain static and do no further work other than the work already carried out to self assess the council's counter fraud arrangements.
- 3.2 Carry out further work as part of the 2008/09 audit plan to assess the potential risk of fraud and revisit the assessment with a view to highlighting any further areas for improvement, which could further strengthen counter fraud arrangements.
- 3.3 Finally, the last option would be to aim for full compliance with CIPFA guidance, making all necessary changes to current procedures in order to do so.

4. ANALYSIS OF OPTIONS

- 4.1 Failure to consider CIPFA guidance further as part of the 2008/09 audit into fraud arrangements could result in a missed opportunity to fully assess what level of compliance is appropriate for the council. This may in turn limit the effectiveness of the council's arrangements for creating a strong counter fraud culture, one of the criteria for an effective Audit Committee. This work provides an opportunity to further enhance corporate governance arrangements, on which the preparation of the Annual Governance Statement relies. In addition the work should enable the council to demonstrate better use of resources and achieve more positive CPA judgements.
- 4.2 However to implement all requirements detailed in the guidance could be resource intensive and disproportionate in the council's

circumstances and are unlikely to bring sufficient benefit given that experience shows there is not a culture of fraud at the council. An approach proportionate to the council's needs is considered most appropriate.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY.IT)

5.1 Resources are met from Internal Audit and Risk Management budgets.

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)

6.1 The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The requirement for an internal audit function is set out in the Accounts and Audit Regulations 2003. Internal Audit will continue to assist the Chief Financial Officer discharge his statutory duty.

7. OUTCOMES OF CONSULTATION

7.1 External Audit requested that the Audit Committee give consideration to their role in respect of fraud and misstatement in the financial statements and have agreed the approach set out in this report.

8. RECOMMENDATIONS

8.1 To note this report, and to approve further work to establish improvements to anti fraud arrangements designed to meet the council's identified needs.

8.2 To endorse the arrangements in place in respect of the Audit Committee's anti fraud role as summarised in appendix A of this report

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Background Papers used in the preparation of this report

How does the Committee assess the risk that the financial statements may be materially misstated due to fraud?

Several factors provide assurance:

- strong internal controls (including financial controls) exist, endorsed through past internal and external audit work and Use of resources assessment
- effective fundamental financial systems that underpin the financial statements endorsed through annual internal audit reviews
- a track record of low level fraudulent activity and no instances of material level fraud
- strong management of the final accounts process carried out by highly experienced and professionally qualified officers with a proven track record of performance
- effective service delivery at below average cost as evidenced by the VFM element of Use of Resources assessment.

Is the Committee aware of the management’s process for identifying and responding to the risks of fraud generally and specific risks of misstatement in the financial statements?

The Audit Committee approves the council’s Anti Fraud, Theft and Corruption Strategy, which, includes the fraud response plan, investigation and prosecution policy, data matching work and council tax and benefits fraud strategy.

Financial statements are subject to analytical review and extensive management scrutiny to ensure their accuracy. Also all previous final accounts have been given unqualified external audit opinions with no significant misstatements being identified.

Is the Committee aware of the arrangements in place for management to report about fraud to the Committee?

Significant fraudulently activity is reported through regular reports to the Audit Committee:

- Quarterly internal audit progress reports
- Annual Internal Audit Report
- Specific counter fraud reports such as National Fraud Initiative (data matching) work

Is the Committee aware of the arrangements management have in place, if any, for communicating with employees, non-executive directors, partners and stakeholders regarding ethical governance and standards of conduct and behaviour?

The council’s ethical governance arrangements and standards of conduct and behaviour are communicated in a variety of ways:

- The Constitution – includes the roles and responsibilities of Members and officers
- Codes of Conduct for Members and employees

- Contract Procedure Rules include expected ethical standards of potential contractors
- The council's partnership toolkit incorporate minimum governance requirements.
- The council's ethical standards are communicated to all citizens through the Direct magazine and is a key component of the council's communication strategy.
- Information on ethical standards expected from officers is also included in the staff magazine – People.

Does the Committee have knowledge of actual or suspected fraud, and, if so is it aware of what actions management is taking to address it?

All potential fraud is reported to Internal Audit and investigated in accordance with the Anti Fraud, Theft and Corruption Strategy and human resources policies. The Audit Committee receives regular updates of significant fraudulent activity through quarterly progress reports and the Annual Internal Audit report.

What arrangements are in place for the Committee to oversee management arrangements for identifying and responding to the risks of fraud and the establishment of internal control?

The Audit Committee is informed through a series of reports during the year on management arrangements for identifying and responding to the risk of fraud and implications for the council's internal control environment. These include:

- Quarterly internal audit progress reports
- Annual Internal Audit report
- Anti Fraud, Theft and Corruption Strategy
- National Fraud Initiative (data matching) work
- Corporate Governance review
- Counter Fraud report
- Governance Statement
- Use of Resources – results
- External audit's Annual Inspection and Audit report.