



AUDIT AND RISK COMMITTEE

22 MAY 2018

FRAUD AND CORRUPTION ANNUAL REPORT

REPORT OF THE HEAD OF INTERNAL AUDIT

Purpose of the Report

1. The purpose of this report is to advise and provide assurances to Members of the Audit and Risk Committee of the results of work being undertaken within the Authority in seeking to identify, control and prevent fraud and corruption.

Background

2. Public accountability, a reputation for honesty and the exposure of misconduct are key features of the approach taken in combating potential fraud and corruption from within and outside the Authority.
3. The Fraud Act 2006 describes the following 3 methods of committing fraud;
 - Fraud by misrepresentation
 - Fraud by failing to disclose information
 - Fraud by abuse of position
4. Corruption is defined as “the offering, giving, soliciting or acceptance of any inducement or reward which may improperly influence the action of any person”.

The Authority’s Responsibilities in relation to Fraud and Corruption

5. In administering its responsibilities the Authority has in place a framework of written procedures and controls to help ensure the highest standards of conduct are practised.
6. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy (Confidential Reporting Code).
7. The Authority has also approved a number of other policies in relation to the prevention, detection and investigation of fraud as follows:
 - Anti-Fraud, Anti-Bribery & Anti-Corruption Policy
 - Regulation of Investigatory Powers Act (RIPA) 2000 Policy
 - IT Security Policy
 - Disciplinary Procedures
8. Internal Audit has a key role in providing assurance that the Authority’s procedures and policies are adhered to and in helping to detect fraud through its testing. All Internal Audit staff are aware to the risk of fraud and corruption and help prevent this through evaluating the effectiveness of internal controls and recommending improvements to management to help manage risk.

9. It is the responsibility of the Section 151 Officer to develop, maintain and review the Authority's Anti-Fraud, Anti-Bribery & Anti-Corruption Policy. Senior Officers are responsible for promoting the Anti-Fraud Anti-Bribery and Anti-Corruption Policy within their Department and ensuring that all suspected irregularities are reported to the Head of Internal Audit.
10. It is the responsibility of Senior Officers to establish sound systems of internal control in its arrangements for planning, appraising, authorising and controlling operations within their service areas. In doing so these Officers must be aware of the risk of fraud and corruption within their areas of operation and should seek advice from Internal Audit as considered necessary. Where possible this advice should be sought during the development of systems so that Internal Audit can be pro-active in helping management establish appropriate controls pre-implementation, thereby increasing their effectiveness and minimising risk.
11. Publication of related policies on the Authority's website and intranet is a further way in which the Authority seeks to be pro-active in this area. Policies are also incorporated into Employee Handbooks and are identified during officer and member induction.
12. Internal Audit will look to advise / work with the Clerk and with Investigating Officers in determining the relevant course of action to be pursued, in the event of fraud or corruption including, where it is considered appropriate, to involve Officers from the Durham Constabulary. To help manage this process the Council has a dedicated Counter Fraud Team within the Internal Audit Service who hold appropriate professional qualifications in Fraud Investigation.

National Fraud Initiative NFI

13. Internal Audit also supports management pro-actively in the prevention and identification of potential irregularity through membership of the National Anti-Fraud Network (NAFN) and directly through participation within the National Fraud Initiative (NFI).
14. The NFI is the Cabinet Office's data matching exercise that runs every two years. Data from various Authority systems was submitted in October 2016 and was matched across systems and against data submitted by other organisations to identify potential fraud and / or error.
15. The exercise focused upon payments made in relation to pensions, payroll and creditors and generated various reports containing a total of 351 data matches for further investigation.
16. Investigations into all 351 data matches are complete and as a result:
 - No instances of fraudulent or irregular activity, being perpetrated by County Durham and Darlington Fire and Rescue Service employees, pensioners or their representatives, were identified.
 - 11 errors were identified that highlighted potential weakness in the relevant County Durham and Darlington Fire and Rescue Service or Durham County Council systems of control and / or procedures, namely:-
 - i. One employee had failed to make a declaration of interest relating to involvement with a trade creditor.
 - ii. 10 duplicate creditor records were closed.

Fraud and Corruption Survey

17. In previous years, at the request of the Head of Corporate Resources, Internal Audit completed, on an annual basis, the Audit Commission's fraud and corruption survey which covered the whole of Local Government.
18. Whilst following the abolition of the Audit Commission, completion of the survey is no longer a mandatory requirement within the Fire and Rescue Service, it does, nevertheless, provide a reliable framework against which fraud can be analysed and categorised.
19. Through discussion with the Head of Corporate Resources no incidences of fraud were identified as occurring during 2017/18.

Reporting on Key Activities

20. All occurrences of fraud and corruption in excess of £10,000 must be reported to the External Auditor. It is pleasing to report that in 2017/18, no incidents of fraud or corruption have been identified.

Recommendation

21. Members are requested to note the progress made and assurances provided in relation to the Authority's anti-fraud and anti-corruption arrangements.

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