

Baseline Assessment of Six Themed Areas



- Resource and Communication
- Fraud Risk Management
- Policy Related
- Committee Related
- Culture and Awareness
- Reporting, Investigating and Monitoring

Scope and Ambition

This baseline assessment is a corporate view of fraud maturity within the organisation. We recommend a revisit of the assessment in twelve months' time, with a view to an expected increase in the level of maturity. It is vital that management ensure the key findings from this work are considered and that they work with SWAP to reduce risk of fraud and to protect the public purse.

SWAP intends to share the results of this assessment across its wider partnership, to give opportunity for Councils to compare outcomes and where possible, share good practice. This exercise will anonymise the information from each Council.

Assessments per Area Reviewed

Resource and Communication



Fraud Risk Management



Policy Related



Committee Related



Culture and Awareness



Reporting, Investigating and Monitoring



- Assessed not to be in place/ operating ineffectively – requires significant improvement.
- Assessed to be partially in place – requires improvement.
- Assessed as in place/ operating effectively.

Appendix 2

Action Plan

ROADMAP OF ACTIONS

Now as a priority

- Present this report to key stakeholders and assign responsibility for management of actions.

- Ensure the following is presented to the Audit, Governance and Standards Committee for review and approval:

1. An annual report which assesses the effectiveness of fraud prevention and detection.
2. Agreement of an annual fraud plan for 2021-22.
3. Reviewed Anti-Fraud and Corruption Policy and Strategy.
4. Reviewed Whistleblowing Policy
5. Reviewed Anti-Bribery Policy
6. Reviewed Anti-Money Laundering Policy

Immediate Future

- Complete risk assessment process with SWAP and assign responsibility for ongoing management of the process.

- Publish the following and make available to key stakeholders:

1. The approved Anti-Fraud and Corruption Policy and Strategy.
2. The approved Whistleblowing Policy
3. The approved Anti-Bribery Policy
4. The approved Anti-Money Laundering Policy.

- Ensure contractors sign up to the Council's Whistleblowing Policy.

Shorter-term

- Agree and implement a training plan for staff and Members in relation to fraud and ethics.

- Ensure fraud and corruption risk is included and referenced in the Risk and Opportunity Management Strategy and the strategic risk register.

Medium-term

- Consider fraud risk in the Directorate Risk Registers.

- Update staff and Member code of conduct documents to include direct fraud reference.

Longer-term

- Ensure relevant strategies and policies are subject to ongoing scrutiny and review by trained counter-fraud resource.



Improved
Baseline
Maturity
Assessment

Cross-Partner Report

Baseline Assessment of maturity in relation to Fraud

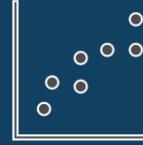
April 2021



THIS REPORT
SUMMARISES
ASSESSMENTS
COMPLETED AT

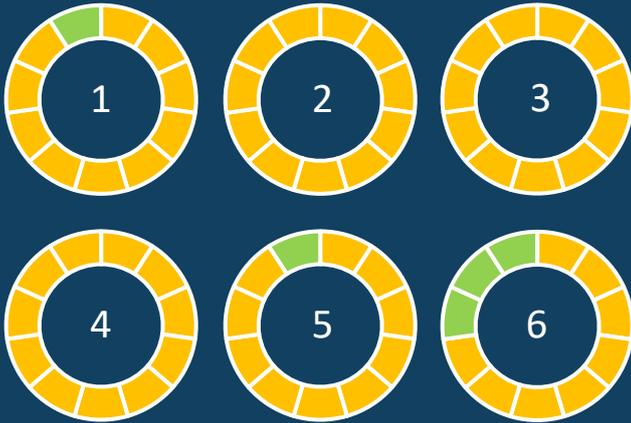


11 PARTNERS
across
7 COUNTIES



IN RELATION
TO COUNTER
FRAUD
MATURITY

Each Council overall assessment per theme:



- 1: Resource and Coordination
- 2: Risk Management
- 3: Policy related
- 4: Committee roles
- 5: Culture and Awareness
- 6: Reporting, Investigation and Monitoring

The common findings identified:



RISK ASSESSMENTS have not been completed to inform planning and fraud and corruption are not considered in the corporate risk management process.



AUDIT COMMITTEE AND PORTFOLIO ROLES do not refer to any responsibilities in respect of fraud.



COUNTER-FRAUD ACTIVITY AND OUTCOMES are not recorded and reported to Members and senior management.

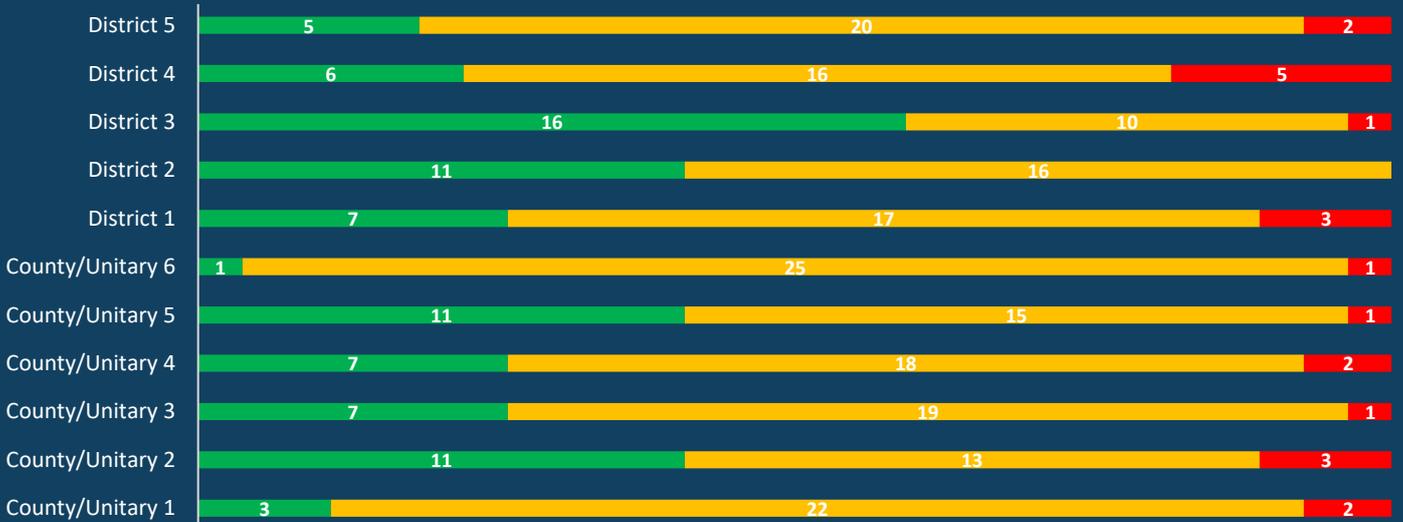


There is no PROGRAMME OF TRAINING for staff and members in relation to ethics and anti-fraud.



There is no LIVE COUNTER-FRAUD PLAN which aligns fraud risks to available and coordinated resources.

Total number of requirement assessment conclusions per Authority:



- Assessed not to be in place/ operating ineffectively – requires significant improvement.
- Assessed to be partially in place – requires improvement.
- Assessed as in place/ operating effectively.

Foreword



“Fraud has not disappeared: it is ever present, evolving and affects the funding that is needed for frontline services. In many public sector bodies, it is still an area where there is significant underinvestment, because they are not recognising the extent of the epidemic and seeing other priorities, particularly around service delivery, as more important. As fraudsters evolve, we must too. To these ends, through collaboration and intelligence sharing with a fraud prevention specialist service, we are ensuring that cases of fraud are not replicated across our partnership, mitigating controls are put in place and offenders are dealt with appropriately. Through our proactive intelligence-led approach we are taking steps to ensure the public purse is protected from all fraudulent activity.”

As CEO of SWAP, I am pleased to see reports of this nature, which provide shared and prolonged benefit to several of our partners.

Following the approval of SWAP’s Business Plan in November 2019, a fraud and investigations portfolio was created. We saw this as a real opportunity to provide a valuable difference to our Partners, many of which have little or no counter fraud resource available to them.

Our Counter Fraud and Investigations Team have been tasked with providing a proactive counter fraud service for our Partners, to compliment the historical reactive work offering.

This piece of work assesses each Partner against a reputable framework, the Fighting Fraud and Corruption Locally Strategy 2020 and gives partners a corporate view of maturity in relation to fraud risk.

The results of the assessments will be used together with more detailed service level risk assessments to underpin our proactive counter fraud work for 2021-22 and beyond.

I wanted to also take this opportunity to promote the work of the Counter Fraud Team, which now gives our Partners direct access to a dedicated, trained, and professional counter fraud and investigation resource.

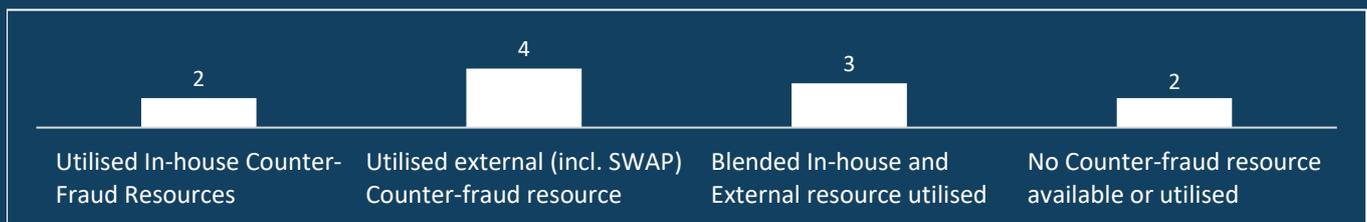
David Hill

CEO of SWAP Internal Audit Services



Key Findings: Resource and Communication

Despite a predominantly amber picture across this theme, there are differing approaches to resource and communication across the SWAP partnership. Some Councils have a designated and funded counter-fraud resource, including in-house and outsourced provisions, some have no counter fraud resource whatsoever. It is understood that many Councils have shuffled their resources in response to the pandemic, so the following graphic details the resource position across the eleven partners under their 'normal' operating ability:



Typically, **Councils are not aligning their fraud risks to available resources** and there is **a lack of reporting on detection and prevention measures to key stakeholders**.

Partners can increase their maturity in this area by establishing what resource is available to them within the authority and via SWAP, as part of their internal audit services provision. This will allow Councils to properly develop and approve a fraud plan which focuses on delivery within the available resource. Proactive fraud work should also be considered as part of this planning, with a focus on the prevention of fraud.

We would urge Councils to **revisit this area during the ongoing pandemic**, when resources across the authorities are more thinly spread to allow for a prioritised response to the crisis. There is direct fraud risk exposure linked to the re-deployment of staff and the extra pressure they are under, which is often enhanced by internal controls being misunderstood, suspended, or relaxed. The ongoing pandemic increases the opportunity and rationalisation for fraudulent activity for many.



The examples of good practice in this theme, mostly came from authorities that had a dedicated counter-fraud resource. These authorities had a choice of counter-fraud experts which enabled them to select the best option for each investigation.



We also highlighted at these authorities that the scope and capacity of the counter-fraud resource is understood and agreed and that there is a blend of reactive and proactive activity that is reported to key stakeholders. Furthermore, these counter-fraud resources are actively working work with colleagues across the sector and with enforcement agencies to reduce the risk and impact of fraud and corruption.

“Local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses.”

Fighting Fraud and Corruption Locally Strategy 2020

“Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant.”

Fighting Fraud and Corruption Locally Strategy 2020



Key Findings: Risk Management

An amber wheel indicates that every authority included within the exercise was assessed similarly. We have found that most **Councils have not performed a full assessment of fraud risks** and this links into the resources section above on page 4. For many Partners there is an acknowledgement that fraud risks are assessed as part of Internal and External audits and that there is some overlap with legislative and local requirements in this area.

A scan of the corporate risk registers across the SWAP Partners revealed that **less than a quarter of registers included any reference to fraud or corruption risks.**

Furthermore, the **corporate risk management guidance documents across the Councils were lacking any reference to fraud and corruption.**

Generally, **fraud and corruption risks are not considered** as part of service/ directorate level risk assessments.



What next?

Following on from this work, SWAP is facilitating the completion of a fraud risk assessment. Where Partners have an in-house Counter Fraud provision, we recommend that they lead on this work.

It is essential that the risk assessment is kept live, the process is owned by the Council and risks are reported to stakeholders.

The fraud risk assessment document will form the backbone of resource allocation for counter-fraud activity, including internal audit planning and assurance mapping.

At this stage Councils should be thinking about the resource internally to own and manage the fraud risk assessment. The SWAP Counter Fraud and in-house Counter Fraud Teams are on hand to facilitate this and should be actively involved in the process as a 'critical friend' and in relation to the changing risk landscape.



One Authority had fraud and corruption risk directly referenced in their corporate Risk Management Policy and had considered fraud risk as part of their strategic risk register, which was reviewed regularly by Members and senior management.

"Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users."

Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA)

"To avoid the risk that responsibility falls between managers, the organisation should have a clear fraud risk champion, who is known to all employees."

Public Sector Fraud – Identifying the risk areas (Deloitte)



Key Findings: Policy Related

Councils generally have approved policies in place in relation to anti-fraud, whistleblowing, codes of conduct and registering interests. Many of those reviewed though, lack a fraud and corruption thread, had **fallen out of date** with for example, changes to key personnel and/ or were not available to stakeholders as required.

One area to pick out from this theme was the **lack of evidence to support that contractors and third parties are required to sign up to the Councils Whistleblowing Policy**. This is something that promotes good governance and a recent report from the Association for Certified Fraud Examiners (www.acfe.com/report-to-the-nations/2020) found that around a third of occupational fraud tips came from customers and vendors combined.

Most staff and Member code of conducts did reference the behaviours expected in order not to commit fraud; however, these **did not typically give explicit reference to fraud, anti-bribery, and corruption**.

We found a variety of approaches to anti-fraud policy and strategy, some had incorporated both into the same document, some had standalone documents. To assist with this area, we have noted the following components for inclusion in an effective policy and strategy:

- Actions that are deemed to be fraudulent, including definition.
- Allocation of responsibilities for the overall management of fraud.
- A statement that all appropriate measures to deter fraud will be taken.
- The Council has a zero-tolerance to fraud.
- The formal procedures which employees should follow if a fraud is suspected and a Fraud Response Plan.
- Notification that all instances of suspected fraud will be investigated and reported to the appropriate authorities.
- A statement that fraudsters will be prosecuted and that the Police will be assisting in investigations as required.
- A statement that all efforts will be made to recover wrongfully obtained assets from fraudsters.
- Encouragement to employees to report any suspicion of fraud.
- Explicit links to other key policies, including whistleblowing and code of conducts.
- Prosecution, Sanctions and Redress Protocol.
- How success will be measured, how the strategy will be delivered and the timescales and responsibility for this.
- How and what training will be provided to key stakeholders.
- The steps to be taken in the event a fraud is discovered and who is responsible for taking any action.
- Consistent with the Fighting Fraud & Corruption Locally 2020 Strategy: Govern, Acknowledge, Prevent, Pursue, Protect.



One Authority presents regular reports to their Audit Committee to demonstrate how well the policies around the code of conduct, for example declaration of personal interests, are being adhered to. This allows Members to monitor the take up of policies and spot any declining trends.



Some authorities had bought in Counter-Fraud resource to proof-read key policies, and this was replicated at service level, in relation to areas where fraud presents an inherently high risk.

“The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.”

Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA)



Key Findings: Committee Roles

Councils typically have **no assigned Member representative for fraud** and there is **a lack of counter-fraud activity reported to Audit Committees**, or equivalent. This means that Councils are unable to demonstrate appropriate oversight, awareness, and support for counter-fraud activity.

We have found at several Councils that Committee responsibilities state that the Audit Committee should take an “active role in the prevention and deterrence of fraud”, and that anti-fraud policies and strategies are taken to Members for approval. However, **little, or no ongoing information is reported to Members** and therefore the effectiveness their role in relation to prevention and deterrence cannot be substantiated.

SWAP has an important role to play here, and this is recognised by recommendation at every Council that the results of the Baseline Assessment be taken to the Audit Committee. Committees need to ensure that the responsibility for managing the actions from the baseline assessment is assigned.

This should be the start of an ongoing relationship between Members and Counter-Fraud related activity.

We also found that there is a real **lack of regular training for Members**, meaning they are less effective in challenging counter-fraud activity. We would recommend that Councils look at specialist Member training and awareness sessions. A standard level of training should be applied to all Members, with more specific in-depth training given to those Members with agreed responsibility for counter-fraud.



Some examples were found where counter-fraud activity is shared with Members, including proactive and reactive works. Other examples were found in relation to Audit Committees having recorded responsibility in relation to oversight of counter fraud activity.

“Councillors should have and maintain an understanding of fraud risks and consider fraud in relation to the decision-making process.”

A Councillor’s Workbook on Bribery and Fraud Prevention (LGA)



Key Findings: Culture and Awareness

This area has found that there is a **lack of training provided to employees** and that where some level of training is provided, this does not link to any assessment of risk. Again, we would urge Councils to **make this a priority** due to the direct fraud risk exposure linked to the re-deployment of staff and the increased opportunity and rationalisation for fraudulent activity. There are things that Councils can do to compliment effective training, such as sharing of relevant awareness materials and case studies where fraud or corruption has occurred.

We also found that there is generally a **real reluctance to publicise successful outcomes relating to cases of fraudulent activity** at Councils, even where there is a statement in the Council's policy which states this will happen. Publishing successful outcomes is a proven deterrent for fraud and corruption and helps to enforce a strong tone throughout the organisation.

Some Councils had **no vetting process** in respect of fraud risk for new employees. This is mightily important as the insider threat continues to be prevalent in the workplace. Councils should take a risk-based approach to this and consider here the use of specific vetting services and include the vetting of existing employees.



Some Councils were publishing internal fraud alerts to staff and one Council has been sharing its fraud alerts externally via social media. This helps in promoting good culture and awareness to stakeholders and acts as a deterrent for committing fraud.



There is a general feeling that Council staff are becoming more aware of fraud risk, as a result of the pandemic and the administering of Covid grants. We have seen examples of fraud risk training being provided to staff who are responsible for processing and checking of grant claims.



Several authorities were able to demonstrate that key staff were kept up to date with fraud trends via professional bodies, newsletters, and networking groups.

“The foundation to anyone countering the threat and risk of fraud, in any context, is the development of a strong counter fraud culture.”

A Guide to Managing Fraud for Public Bodies (International Public Sector Fraud Forum)

“Publicise your success, sharing the outcome of a successful investigation or how an anti-fraud measure has worked is a positive way to advertise the message that fraud doesn't pay.”

A councillor's workbook on bribery and fraud prevention (local.gov.uk)



Key Findings: Reporting, Investigating, Monitoring

The most common findings in relation to this theme were that Councils had **no mechanism for recording or reporting on fraudulent activity**. Statistics should be maintained which will allow appropriate scrutiny and monitoring by senior management and Members. We are referring here to the work completed outside of the National Fraud Initiative programme, which by its nature captures and records positive matches for Councils to investigate.

Many Councils had **no process for risk assessing allegations** of fraud and corruption and were typically looking at 'everything' or 'nothing'. This area overlaps with theme 1 on resources and theme 2 on risk management. Councils need a process for risk assessing allegations to ensure they are targeting resource to the correct places in line with a risk approach.

Councils mostly had **response plans in place for fraud and corruption**, although it was commonly identified that some had **no reference to sanctions and redress**.

Data analytics is one area that Councils can use to their advantage in the fight against fraud. There is **little evidence that data analytics is being widely used** across our Partners in this manner, although some have recently joined Cifas and are awaiting the benefits of this. Others **have used data sporadically to review specific areas**, for example discount award and in relation to Covid grants.



There were some good examples of Councils with dedicated whistleblowing lines, with optional anonymisation. These were linked into key policies and available to stakeholders internally and externally.



Some Councils had developed proactive data analytical reviews and were making use of national and internal databases to assist in the prevention and detection of fraud, such as Cifas.



Some excellent Fraud Response Plans were provided during this review, which had been approved by senior management and Members. These included prevention, detection, investigation, sanctions, and redress.



Where authorities have utilised their designated resource, fraud incidents were investigated promptly with unfettered access to documentation.



Did you know that SWAP has a confidential reporting hotline?

Call 020 8142 8462 or email confidential@swapaudit.co.uk

Ambition and Journey

The objective for us and all our Partners should be to reduce the risk of fraud and corruption and to protect the public purse. We appreciate that each Partner has differing available resources and a differing risk appetite. We also have Partners with their own in-house dedicated Counter Fraud Team. We understand our Partners and aim to provide support to them in line with these factors.

Each Partner included in this report has recently received an individual report for their organisation, including an appendix of findings against the 27 requirements and a roadmap of actions to improve the assessment.

Please do not hesitate to contact us, should you require more information about any of the areas in the report, or if you feel you would benefit from further discussion or indeed a deeper dive into some of the areas covered above.

We intend to revisit the baseline assessments in twelve months' time and would expect to see an improving picture of maturity across the Partnership. Our role is to support our partners on the journey to improvement.

Following the baseline assessment, our Counter Fraud and Investigations Team are facilitating the completion of service-level risk assessments, against areas known to carry significant inherent risk of fraud. This will provide each partner with a live view of fraud risk and in conjunction with the baseline assessment, enabling resources to be better aligned to prevent and detect fraud.

The SWAP Counter Fraud and Investigations Team will also be producing annual reports for relevant Partners in relation to counter fraud activity from 2021-22 onwards. This will include progress on fraud risk maturity and any proactive and reactive works undertaken during the period.

To gain maximum benefit from our Counter Fraud services, it is essential that these reports are taken to the 'top table' for consideration and that a strong tone is set by senior management and Members at each organisation.

We look forward to your continued support in the future.

SWAP Counter Fraud and Investigations Team



Jacqui Gooding, CMIIA, QIAL, CIA, CFE

Assistant Director

t: 07872500675

e: Jacqui.gooding@swapaudit.co.uk



David Warren, CFE

Counter Fraud Officer

t: 07720312461

e: David.warren@swapaudit.co.uk



Amy Probert

Counter Fraud Officer

t: 07801672647

e: Amy.probert@swapaudit.co.uk

Appendix 1: The Twenty-Seven Assessment Requirements

Resource and Communication

- The organisation has internal audit and external audit planning aligned to fraud risks. Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.
- The organisation has access to a trained counter fraud resource.
- The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.
- There is a programme of counter fraud work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts. There is an annual fraud plan which is agreed by Audit Committee and reflects resources mapped to risks and arrangements for reporting outcomes.
- The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.

Culture and Awareness

- The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.
- The organisation educates and trains employees regarding the importance of ethics and anti-fraud programs and senior management exhibit and encourage ethical behaviour.
- The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the relevant checks.
- The organisation routinely publicises successful cases of proven fraud and corruption to raise awareness, and this is endorsed by the communications/ media team.
- Relevant staff and members are up to date with latest anti-fraud practice and trends in fraud.

Reporting, Investigating and Monitoring

- Fraud incidents are promptly and thoroughly investigated by a designated and qualified resource, with unfettered access to premises and documents for the purposes of counter fraud investigation.
- All allegations of fraud and corruption are risk assessed.
- Prevention measures and projects are undertaken using data analytics where possible and sharing of data across internal departments and between other enforcement agencies.
- The organisation provides an anonymous way to report suspected violations of the ethics and anti-fraud programmes.
- Statistics are kept and reported which cover all areas of activity and outcomes. The number of investigations and outcomes are recorded.
- There is a fraud and corruption response plan which covers all areas of counter fraud work: – prevention – detection – investigation – sanctions – redress.

Fraud Risk Management

- The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members. Horizon scanning is completed to look for future fraud and corruption risks.
- The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.

Committee Related

- The Audit Committees and Portfolio Lead roles in relation to fraud management are agreed and understood, including:
 - awareness and support counter fraud activity (including proactive and reactive) and receive training to support them
 - receiving of regular reports on the work of those leading on fraud
 - supporting counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources.

Policy Related

- The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:
 - codes of conduct including behaviour for counter fraud, anti-bribery, and corruption
 - register of interests
 - register of gifts and hospitality.Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality, and business. This is checked independently.
- There are employee and member Code of Conducts in place, which include reference to fraud.
- The organisation has an appropriate and approved Anti-Fraud and Corruption Policy available to stakeholders.
- There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance. Is there a zero-tolerance approach to fraud?
- The organisation has an appropriate and approved money laundering policy available to stakeholders.
- There is an independent and up-to-date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.
- Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers.
- Counter fraud staff are consulted to fraudproof new policies, strategies, and initiatives across departments and this is reported upon to committee.