ISLINGTON

FINANCE DEPARTMENT
222 Upper Street, London N1 1XR

Report of:	Director of Finance

Meeting of	Date	Agenda Item	Ward(s)
Corporate Services Committee	25 May 2006		
Standards Committee	19 June 2006	5	

Delete as appropriate	Non exempt	

Subject: Anti-fraud and Corruption Policy

1.   Synopsis

1.1   As part of its mission to be an ever improving council, Islington is determined to ensure that its resources are properly safeguarded and that the manner in which those resources are used are the subject of a properly secure and controlled environment to give assurance and underpin public accountability.

1.2   One of the tools in achieving this, as in all large organisations, is to have a clear Anti-Fraud and Corruption Policy that sets out the Council's position on anti-fraud issues and is communicated to all staff and partner organisations.

1.3   The production and adoption of such a policy is in no way indicative of any perceived level of fraud within an organisation, but it is a very clear message that fraud will not be tolerated and that where it is found it will be treated seriously and dealt with in a robust manner.

1.4   The Anti-fraud & Corruption Policy will be a key component of Islington's risk management and specifically its aim in ensuring that public funds are properly safeguarded. In order to further this aim, the Council needs to have in place, a strategy to manage avoidable losses (MAL).

1.5   This paper sets out the basis of the MAL strategy and the work programme planned for 2006/07 in relation to this strategy.

2.   Recommendation

2.1   To approve the Anti-fraud & Corruption Policy and the proposed workplan in relation to implementation of the MAL strategy.

3.   Background

3.1   The MAL approach recognises that the Council, in common with many organisations, does not always adequately control and safeguard its resources and the central premise of the MAL strategy is that it encompasses more than just losses as a result of fraud and corruption.

3.2   Avoidable losses are deemed to be attributable to:

- Error – for example, failure to invoice for amounts due;

- Mismanagement – including poor negotiation of contract terms, delays caused by failure to make decisions or unmonitored budget overruns; and

- Dishonest ("fraud") - such as embezzlement, conflict of interests and theft of assets.

3.3   The MAL strategy assumes (based on experience) that the same control weaknesses or lack of compliance with controls can give rise to losses through error, mismanagement or dishonesty, depending on an individual's motivation and opportunity, coupled with the potential for low chance of detection (the three sides of the so-called 'Fraud Triangle').

3.4   By identifying and reducing the opportunity for avoidable losses, including fraud and corruption, otherwise scarce resources can be diverted within the organisation to enable it to attain the highest levels of service delivery.

3.5   In order to manage avoidable losses effectively, the consideration of fraud risk and other avoidable losses should be embedded within strategic decision making as well as routine operational procedures, such as commissioning.

3.6   Counter-fraud strategies typically focus on a single issue and develop proactive reviews to identify fraudulent activities or opportunities and deliver training to remedy any deficiencies identified. Although these are important inputs and outputs, the MAL strategy locates them within its wider objectives, which are four-fold:

- To embed fraud and other loss awareness in routine operational decision-making;

- To escalate weaknesses in system and control environments identified during the course of investigations and proactive reviews to relevant stakeholders;

- To complement existing intelligence within the organisation for the purposes of wider risk management; and

- To contribute to the decision-making process around the allocation, distribution and safeguarding of resources across the Council (including audit planning and departmental risk assessments).

4. Anti-fraud & Corruption Policy

4.1 The Council's Anti-Fraud & Corruption policy has been drafted, providing an introduction to fraud and guidance as to how managers and staff should manage fraud risk and act on suspicions of fraud. This policy is a key component of the MAL strategy and the policy document is attached to this paper for review and approval by the Corporate Management Board. It is proposed that this policy will be posted on the intranet and that hard copy documents will also be made available to Members, staff and the public as part of the fraud awareness programme.

5. Proposed workplan

5.1 The programme for 2006/2007 involves four primary areas. These are:

- a meeting with each DMT to discuss the MAL strategy and report back on the Fraud Risk Assessment referenced below;

- training MAL workshops with senior managers within departments (half day);

- a package for Managers containing guidance on introducing the MAL strategy to their teams; and

- a programme of proactive data mining to inform future anti-fraud work.

5.1 MAL workshops

5.1.1 Workshops will be provided to give participants the opportunity to develop their awareness of fraud risks and other avoidable losses within their working environment (identifying common operational risks and weaknesses) and highlighting areas for improvement. The workshops will consist of a short introduction to avoidable losses, including a brief summary of the three types of avoidable loss, the key messages from the risk assessment, as well as the various elements of the Council's current focus on fraud. The key risks and areas for improvement will be highlighted through interactive, worked case studies. Ongoing operational training (procurement, finance etc.) should also be amended to incorporate awareness of vulnerability to avoidable losses within the Council.

5.2 Proactive datamining

5.2.1 Various data mining tools will be used to identify trends and patterns within the Council's payment data that are often associated with fraud and malpractice.   Specific tests will be run against the data, as well as a number of fraud models, which are tested against the controls. Dependent on the findings of the review, additional work may be required. In most cases this work will typically focus on such processes as the reasons for vendor selection, payment procedures and any potential relationships between suppliers and employees.

5.3 Review of policies and procedures

5.3.1 A review will be undertaken of other policies and procedures within the Council to ensure that they reference the Managing Avoidable Losses strategy. Among the policies and procedures that will be subject to review are:

- Whistleblowing policy
- Code of Conduct
- Gifts/Entertainment policy
- Fraud Response Plan

5.4 Fraud risk assessment

5.4.1 A high-level fraud risk assessment has been completed. The review was based on the output from previous investigation cases, Internal Audit reports on the Council's control environment and departmental risk registers, which helped identify those processes and activities that are most exposed to fraud and other avoidable losses. The assessment enables the Council to identify and assess the effectiveness of the key controls designed to manage fraud and other avoidable losses and to prevent fraud/malpractice by individuals involved in the processes under examination.

5.5 Fraud Risk Register

5.5.1 During the meetings with the DMTs we will also discuss the use of Fraud Risk Registers on the basis of the top five to ten fraud and avoidable losses risks.

5.5.2 The fraud risk register should perform a dual purpose:

- Recording the organisation's assessment of its vulnerability to fraud and other avoidable losses; and

- Documenting the appropriate control(s) that should mitigate (or minimise) the identified risk.

5.6 Integrated working

5.6.1 While the long-term aim of the MAL strategy is to embed desirable behaviours at a strategic and operational level, a key objective is to improve co-ordination and co-operation between the different stakeholders, including Internal Audit, Anti-Fraud functions within departments, external audit and management.

5.6.2 Although each function has its own methodology and outputs, their aims are the same: to reduce avoidable loss and the scope for abuse of the Council's systems and controls. While Internal Audit achieves this by reference to the performance of the control environment, Anti-Fraud resources are responsible for investigating the circumstances around particular allegations that will include consideration of the relevant aspects of the control environment.

5.6.3 During 2006/2007, PwC Forensics will be providing input into the scope of a number of Internal Audit reviews to ensure that those areas of vulnerability to avoidable loss are inspected while at the same time Internal Audit's findings are being incorporated into the scope of investigations and contribute to the risk assessments.

6.   Implications

6.1   Financial Implications

6.1.1   The programme of audit work was met from within the existing Internal Audit revenue budget.

6.2   Legal Implications

6.2.1   The Council has a duty to maintain an adequate and effective system of internal audit in accordance with proper internal audit practices (regulation 6 Accounts and Audit Regulations 2003). As the responsible financial officer, the Director of Finance is required to determine the Council's financial control systems, including measures to enable the prevention and detection of inaccuracies and fraud (Regulation 5[4]). Due regard must be had by the Council to the CIPFA code of practice for internal audit. Any officer or member must supply necessary documents and other records and provide any necessary information and explanation required in the course of an internal audit.

6.3   Equality Implications

6.3.1   Enhanced protection of public funds will enable the Council to ensure that resources are fully utilised in the provision of services to all sections of the community.

7.   Conclusion and reasons for recommendations

7.1   Corporate Services Committee will recognise the importance of having a detailed Anti-Fraud & Corruption Policy and the benefit of the wider Managing Avoidable Losses strategy. The Anti-Fraud & Corruption Policy has been drafted under the guidance of the Chief Internal Auditor, with input from key stakeholders including PwC Forensics, Legal, and Human Resources.

Background Papers:

Final Report Clearance

Signed by   _   _ _ _ _ _ _ _ _ _ _

                      Director of Finance   Date

Received by   _   _ _ _ _ _ _ _ _ _ _
                      Head of Democratic Services   Date

Report Author   : Jim Hodges, Chief Internal Auditor
Tel   : 0207 527 2744
Email   : jim.hodges@islington.gov.uk