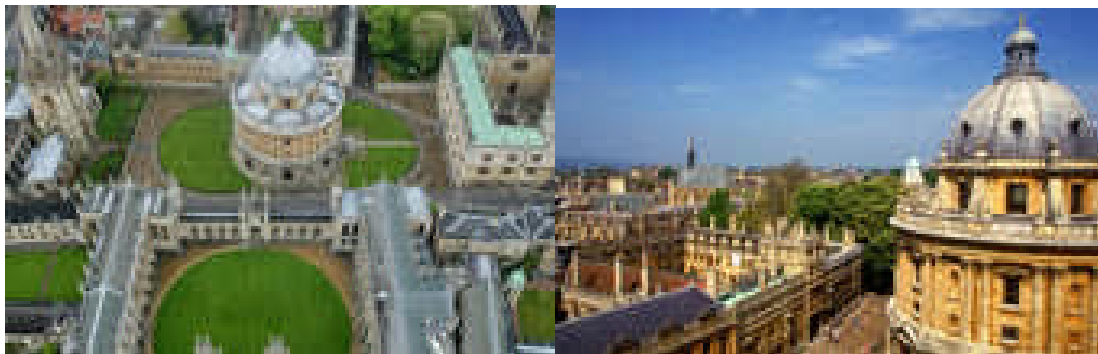


# Anti Fraud and Corruption Review

## Internal Audit Final Report 09\_10 2.11



<b>Assurance rating this review</b>	High Assurance
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### Distribution List

Chief Executive - Peter Sloman  
Interim Executive Director of Finance – Nigel Pursey  
Heads of Finance - Penny Gardener and Sarah Fogden  
Investigations Manager - Carol Quainton  
Head of Legal and Democratic Services - Jeremy Thomas



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# Background and scope

## Introduction

This review was undertaken as part of the 2009/10 Internal Audit Plan agreed by the, Audit Committee.

This report has been prepared solely for Oxford City Council (“the Council”) in accordance with the terms and conditions set out in our letter of engagement. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

## Background

Fraud and corruption is estimated to cost the UK economy £14bn. In the current economic climate it is arguable that the risk of fraud is more prominent as incentives and opportunities for fraud are heightened.

Oxford City Council is currently reviewing its anti fraud and corruption policies for approval by those charged with governance. This review looks to analyse these new policies and procedures to ensure the Council is equipped with the necessary tools to prevent and detect fraud.

## Approach and scope

### Approach

Our work is designed to comply with Government Internal Audit Standards [GIAS] and the CIPFA Code.

### Scope of our work

In accordance with our Terms of Reference (Appendix 1), agreed with Carol Quainton (Investigations Manager) and Penny Gardener (Head of Finance), we undertook a limited scope audit of the anti fraud and corruption arrangements currently in place at the Council

This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls are operating in practice.

### Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.



**Staff involved in this review**

We would like to thank all client staff involved in this review for their co-operation and assistance.

**Name of client staff**





Carol Quainton – Investigations Manager  
Melanie Magee – HR Manager  
Sean Hoskins – Payroll and HR Administration

# Our opinion and assurance statement

## Introduction

This report summarises the findings of our review of anti fraud and corruption arrangements currently in place at the Council

Each of the issues identified has been categorised according to risk as follows:

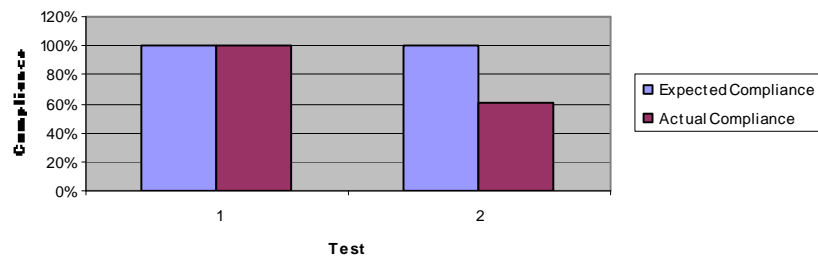
Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the <b>Authority's objectives</b> in relation to: <ul style="list-style-type: none"> <li>• the efficient and effective use of resources</li> <li>• the safeguarding of assets</li> <li>• the preparation of reliable financial and operational information</li> <li>• compliance with laws and regulations.</li> </ul>
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key <b>system, function or process</b> objectives.  This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> <li>• has a low impact on the achievement of the key system, function or process objectives;</li> <li>• has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</li> </ul>
 Low	Control weakness that does not impact upon the achievement of key <b>system, function or process</b> objectives; however implementation of the recommendation would improve overall control.

# Executive Summary

<p><b>Department:</b> <b>Audit Owner:</b> Carole Quainton – Investigations Manager</p> <p><b>Date of last review:</b> n/a</p>	<p><b>Overall Opinion:</b> <b>High Assurance</b></p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>	<p><b>Direction of Travel</b> No previous review has been conducted</p>	<p><b>Number of Control Design issues identified</b></p> <p><b>0</b> Critical <b>0</b> High <b>1</b> Medium <b>0</b> Low</p>	<p><b>Number of Controls Operating in Practice issues identified</b></p> <p><b>0</b> Critical <b>0</b> High <b>1</b> Medium <b>5</b> Low</p>			
<p><b>Key Areas of Risk</b></p> <ul style="list-style-type: none"> <li>Key fraud policies and procedures have not been updated on a regular basis</li> <li>Fraud policies contain omissions for a number of key topics</li> </ul>	<p><b>Other Considerations</b></p> <table border="1"> <tr> <td data-bbox="752 983 1115 1104"> <p><b>Use of Resources-related</b> None noted</p> </td> <td data-bbox="1115 983 1460 1104"> <p><b>Corporate Plan- related</b> None noted</p> </td> </tr> <tr> <td data-bbox="752 1110 1115 1262"> <p><b>VFM-related</b> None noted</p> </td> <td data-bbox="1115 1110 1460 1262"> <p><b>Financial Reporting related</b> None noted</p> </td> </tr> </table>		<p><b>Use of Resources-related</b> None noted</p>	<p><b>Corporate Plan- related</b> None noted</p>	<p><b>VFM-related</b> None noted</p>	<p><b>Financial Reporting related</b> None noted</p>	<p><b>Scope of the Review</b></p> <p>To review the design and effectiveness of the Council's procedures for preventing and detecting fraud and corruption.</p>
<p><b>Use of Resources-related</b> None noted</p>	<p><b>Corporate Plan- related</b> None noted</p>						
<p><b>VFM-related</b> None noted</p>	<p><b>Financial Reporting related</b> None noted</p>						

# Compliance Summary

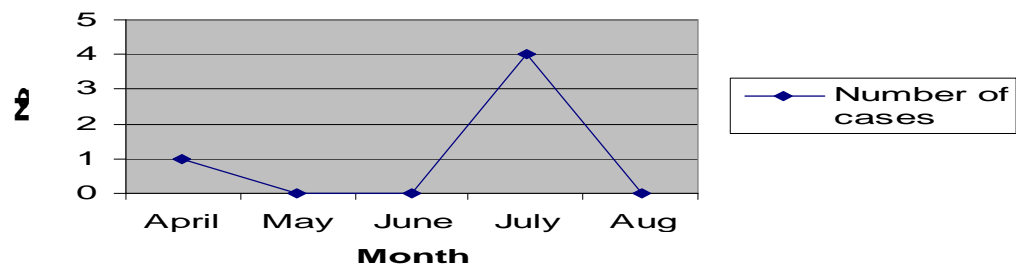
**Compliance Testing**



**Tests Performed:**

1. Details of frauds communicated to those charged with governance on a monthly basis
2. Fraud investigations have been carried out in line with defined disciplinary procedures

**Number of Investigation Cases  
2009/10 to date**





# Limitations and responsibilities

## Limitations inherent to the internal auditor's work

We have undertaken the review of anti fraud and corruption procedures, subject to the following limitations.

### Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Future periods

The assessment of controls relating to anti fraud and corruption is that historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.



# Findings and recommendations

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
<b>Control design</b>						
1	Policies do not accurately reflect current fraud risks and controls, increasing the risk that incidents will not be detected or dealt with appropriately.	<p>The Authority has not updated their central fraud and corruption policy for a number of years.</p> <p>It should be noted that all policies were under the process of review during the audit period and it is hoped that the conclusions from this report will inform the process.</p>	<p>● Medium</p>	All policies and procedures should be reviewed and updated on an annual basis to take into account factors such as changing legislation and working practises	<p><b>Agreed</b></p> <p>The Anti Fraud &amp; Corruption Policy was under review at the time of the audit and has now been updated and is to be reported to the Nov 09 meeting of the Audit &amp; Governance Committee. The employee Code of Conduct was approved by Council on 2<sup>nd</sup> November 2009.</p> <p>We will ensure that it is reviewed on an annual basis in future</p>	<p><b>Carol Quinton</b> <b>Investigations Manager</b> <b>24th November 2009</b></p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
<b>Operating Effectiveness</b>						
2	Short term agency staff may not be aware of policies and procedures. Frauds may go undetected.	Although full and part time staff are given fraud and corruption training as part of their induction process, this is not provided to short term agency staff.	● Medium	Fraud and corruption training should be provided to all temporary staff.  To enable efficiencies this may be in the form of a briefing paper provided to short term and temporary workers upon commencement of their contract.	<b>Agreed.</b>  Investigations will be held to establish the feasibility of delivering briefings to temporary staff either through a paper or electronically	<b>Melanie Magee</b> <b>HR Manager</b> <b>31 Dec 2009</b>
3	Effective deterrent methods are not in place.	At present the only publicity campaigns undertaken by the Council are in relation to benefit fraud.  The fraud investigation service plan includes a key objective around publicity of cases and naming and shaming.	● Low	The Council should consider further publicity campaigns to highlight successful fraud cases and deter future instances.	<b>Agreed</b>  The Council has in the past publicised cases of fraud/ theft where the offender has been investigated by a Police Authority and prosecuted by CPS, and will continue with this practice	<b>Carol Quainton</b> <b>Investigations Manager</b>  With immediate effect

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
4	Members may be unaware of fraud and corruption protocols, leading to insufficient scrutiny.	The Authority's Code of Conduct for members does not include reference to anti fraud and corruption policies.	● Low	The member's Code of Conduct should be updated to take into account the Authority's new anti fraud and corruption policy. Training should be provided to those members who are unaware of the policies and procedures in place.	<b>Agreed in part</b> The Code of Conduct is a standardised document. Decisions were made by the Council not to include any additional information specific to the Council. This will save confusion for those members who are elected in additional Councils. The Council will ensure that the new fraud and corruption policy is distributed to all members.	<b>Carol Quainton</b> <b>Investigations Manager</b> <b>24th November 2009</b>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
5	Key systems of fraud prevention and detection are not in place.	<p>The Council's anti fraud and corruption policy was reviewed during the audit. Although additional policies are in place for whistle blowing and money laundering, these are not referenced within the document.</p> <p>In addition, the draft policy does not cover processes for recovering losses caused by fraud (e.g. the recovery of cash, assets and investigation costs.)</p>	<p>● Low</p>	<p>Reference should be made to the money laundering and whistle blowing procedures within the finalised fraud policy.</p> <p>Details should also be given of how fraud losses will be recovered.</p>	<p><b>Agreed</b> The updated Policy covers these points.</p>	<p><b>Carol Quainton</b> <b>Investigations Manager</b> <b>24th November 2009</b></p>
6	Roles & responsibilities are not clearly defined.	The anti fraud and corruption policy does not clearly define the roles and responsibilities of key officers.	<p>● Low</p>	<p>The anti-fraud and corruption policy should be updated to clearly define the responsibilities of all officers and members and their roles in preventing and detecting fraud and corruption.</p> <p>Efforts should be made to emphasise the responsibility that all individuals have in the anti fraud and corruption process.</p>	<p><b>Agreed</b> The updated Policy covers these points.</p>	<p><b>Carol Quainton,</b> <b>Investigations Manager</b> <b>24th November 2009</b></p>

Ref	Specific risk	Control weakness found	Risk rating	Recommendations	Management response	Officer responsible & implementation date
7	Internal audit is not utilised in the detection and investigation of fraud.	The role of internal audit within the fraud process is not clearly defined within policies and procedures.	● Low	<p>The role of internal audit within the fraud process should be discussed and agreed upon. Internal audit should act as a key stakeholder in the implementation of an effective control environment and fraud investigations and should be informed of all instances of fraud unless there is a suspicion that members of internal audit are involved in that fraud.</p> <p>This role should be clearly defined within the anti fraud and corruption policies and communicated as part of training materials.</p>	<p><b>Agreed</b></p> <p>The updated Policy covers these points</p>	<p><b>Carol Quinton, Investigations Manager</b></p> <p><b>24th November 2009</b></p>

# Appendix 1 - Terms of Reference

## Objectives and deliverables

### Objectives

To review the design and effectiveness of the Council's procedures for preventing and detecting fraud and corruption.

### Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the level of control in place regarding anti fraud and corruption and the level of assurance we can place on the control environment.

## Our scope and approach

### Scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- All possible areas for fraud are identified and resources deployed to those higher risk areas'
- A comprehensive anti fraud and corruption policy is in place and is readily available throughout the Council;
- Effective whistle blowing procedures are in place and are communicated effectively to both employees and the electorate;
- Effective policies are in place to deal with frauds should they occur;
- A protocol is in place to ensure that all key stakeholders and those charged with governance are made aware of instances of fraud;
- Effective preventative controls are in place to avoid instances of corruption occurring;
- Internal policies govern the ethical conduct of officers and members;
- Comprehensive documentation is retained for all suspicions' and instances of fraud;
- Fraud is acknowledged within the risk assessment arrangements for the Council.

We will discuss our findings with the Investigation Manager or nominated representative to develop recommendations and action plans. A draft report will be issued to all relevant officers for review and to document management responses.

The following will not be covered by this review:

- Benefit Fraud Arrangements

### Stakeholders and responsibilities

Role	Contacts	Responsibilities
Investigations Manager	Carol Quainton	<ul style="list-style-type: none"> <li>▪ Review draft terms of reference</li> <li>▪ Review and meet to discuss issues arising and develop management responses and action plan</li> <li>▪ Review draft report.</li> <li>▪ Implement agreed recommendations and ensure ongoing compliance.</li> </ul>
Strategic Director	TBC	<ul style="list-style-type: none"> <li>▪ Receive agreed terms of reference</li> <li>▪ Receive draft and final reports.</li> </ul>
Chief Executive	Peter Sloman	<ul style="list-style-type: none"> <li>▪ Receive final report</li> </ul>

### Our team and timetable

#### Our team

Chief Internal Auditor	Chris Dickens
Audit Manager	Katherine Bennett
Auditor	Andrew Shaw

#### Timetable

Steps	Date
TOR approval	August 2009
Fieldwork commencement	13 <sup>th</sup> August 2009 (T)
Fieldwork completed	T + 7 days
Draft report of findings issued	T + 3 weeks
Receipt of Management response	T + 5 weeks



Final report of findings issued	T + 6 weeks
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**Budget**

Our budget for this assignment is 5 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.



## Appendix 2 - Assurance ratings

Level of assurance	Description
<b>High</b>	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
<b>Moderate</b>	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
<b>Limited</b>	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
<b>No</b>	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>



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