Brentwood Borough Council

INTERNAL AUDIT REPORT

Fraud Risk Assessment

July 2015

BDO

CONTENTS

REPORT STATUS	
Auditor:	James Shortall, Counter Fraud Specialist
Dates work performed:	March – May 2015
Final Meeting Date:	11 June 2015 with Rick Steels and Chris Leslie
Draft report issued:	11 June 2015; final management comments received 24 July 2015
Final report issued:	24 July 2015

DISTRIBUTION LIST	
Rick Steels	Revenues and Benefits Manager
Chris Leslie	Finance Director
Steve Summers	Head of Customer Services
Chris Potter	Monitoring Officer and Head of Support Services
Phil Ruck	Business Development Manager
Ashley Culverwell	Head of Borough Health, Safety and Localism
Kim Anderson	Partnership, Leisure and Funding Officer
Helen Gregory	Head of Housing

Restrictions of use

EXECUTIVE SUMMARY

This Fraud Risk Assessment (FRA) has been undertaken to assist Brentwood Borough Council ('the Council') identify areas of control weakness within the organisation, with a view to informing the appropriate allocation and direction of resources as part of a risk based approach to counter fraud activity. We have considered the Council's overall organisational resilience, as well as fraud controls across the Council's main functions and services, reporting on these by exception within the detailed findings and recommendations section. Using the open access benchmark tool maintained by the Centre for Counter Fraud Studies at the University of Portsmouth, the Council's fraud resilience has scored at 27 out of 50, compared to a benchmark of 35 for a sample of 72 local authorities surveyed by the National Fraud Authority in 2012. Despite this, the positive engagement from staff interviewed is encouraging, as are the areas of good practice that were noted:

- The Revenues and Benefits team are proposing investment in collaborative, data-led approaches to identifying and reducing fraud with the potential to achieve savings of at least £300k per annum
- The Finance department actively engages with the Audit Commission's National Fraud Initiative and used external expertise to improve invoice processing controls
- The Council uses the full range of sanctions to prosecute offenders, including criminal prosecution; similarly, both criminal and civil remedies are used to recover losses
- Formal and informal information sharing and working arrangements exist between council services and external agencies including the DWP, Social Services and the police
- Investigators within Revenues and Benefits are appropriately qualified and maintain their currency through refresher training
- An automated 'work-flow' process for expenses and overtime was introduced in October 2014 which replaces the previous paper-based system. The process covers the payment of members' expenses as well as those for staff.

The need to improve the strength and communication of the Council's counter fraud culture was a recurrent theme, resulting from a widely held perception among staff that the only significant fraud risk facing the Council is benefit fraud. Fraud, bribery and corruption do not appear to be on the agenda for senior management, as illustrated by their absence from operational and strategic risk registers and their lack of consideration at Council member meetings. Fraud awareness training, including bespoke guidance for finance and the grants teams in particular, but also to wider staff groups on an induction and refresher basis, is also required.

By unfortunate coincidence, during our fieldwork the Council's Accounts Payable (AP) team discovered that it had been the victim of a bank mandate fraud resulting in a loss of £42k. An immediate internal audit review of AP controls specifically relating to the management of supplier standing data and payment gave limited assurance over their operational effectiveness. A total of seven recommendations were raised in the full report, currently in draft. A concurrent internal audit review of the Payroll function, also in draft, highlighted two significant control weaknesses in the starters and leavers processes that, respectively, heighten the risk of fictitious employees being added to the payroll, and of overpayments being made to those who have left the Council. This assessment has also highlighted a number of other areas for improvement:

- 13 amendments required to the Council's anti fraud and corruption policy have been identified, detailed at pages four and five
- Fraud, corruption and bribery are not subject to effective risk management, such as inclusion in risk registers and discussion at senior management level
- There is no clear programme of work to develop an anti-fraud culture across the Council, and there are no mechanisms in place to evaluate the extent to which such a culture exists or is developing
- Policy and systems weaknesses are not routinely considered when reporting instances of fraud and, outside of the Revenues and Benefits Service, not all instances are fully investigated and reported on at all
- Fraud reporting procedures for staff are unclear and not contained within a single document
- The effectiveness of counter fraud work is not reviewed against agreed performance indicators
- There is no formal programme of anti-fraud, bribery and corruption training for all staff
- There is no Council-owned policy and procedures covering Right To Buy (RTB)
- No positive ID checks are made of housing tenancy or RTB applicants, either during the application process or when collecting keys to a property
- The Council's register of interests is not subject to periodic audit or similar assurance procedures.

We understand that the Council is in the process of redesigning its counter fraud arrangements and this provides an ideal opportunity to address these areas and develop a robust and cost-effective counter fraud culture.

DETAILED FINDINGS AND RECOMMENDATIONS

Area:	Overall resilience to fraud

Ref.	Findings
1	To assess the effectiveness of the Council's counter fraud arrangements at the corporate level, a set of 29 questions was posed to key staff from across various departments and services; a list of staff who participated is at Appendix I. The questions measure an organisation's resilience to fraud in five key areas: i. Strategic approach ii. Risks and costs iii. Organisational structure iv. Taking action v. Performance management Based on the responses given, detailed at Appendix III, and further interviews with key staff, the following findings have been raised: • The Council's Anti-Fraud and Corruption Policy, published November 2012, is out of date and requires a number of amendments (refer to questions 1-3), specifically: i. A document control page should be added to record key details including purpose, authorship, version, responsible officer, date of ratification, and date of review. ii. The definition of fraud provided at para. 2.1, with its focus on 'financial statements or other records' is too narrow and does not reflect the three main ways by which fraud may be committed under the Fraud Act 2006, namely false representation; abuse of position and failure to disclose. In simple terms, fraud is a deliberate act of deception intended for personal gain or to cause a loss to another; widening the definition along these lines will make it easier to understand and apply in practice. iii. References to corruption should be removed, as this activity is categorically distinct from fraud. Corruption describes a continuum of activity of which the most easily identifiable is bribery; thus the Council should have separate policies for 'fraud' and 'bribery and corruption'. iv. Para. 3.2 refers to concerns generally unrelated to fraud and would be better placed within the Council's 'whistle blowing' policy. v. There is insufficient information on how to report suspected fraudulent activity, with para 3.3 referring readers to a separate policy, *Whistle blowing*. This section should be expanded to outline the action taken if fraud is discovered or suspected, including the Council's reporting process, contact details of responsible officer(s) and external reporting to Action Fraud (either via telephone on 0300 123 2040 or online at www.actionfraud.police.uk) as a matter of course, but especially so should staff wish to remain anonymous. On this last point, the policy should make clear reference to the protections afforded under the Public Interest Disclosure Act. vi. Under section 4.0, *Responsibilities and Protection*, the role of Human Resources should be included, which may include liaison with nominated counter fraud investigators and the conduct of investigations and sharing of information. It should be explained that appropriate protocols will be put in place to cover this vii. The policy should be updated to reflect the current configuration of the Council's counter fraud team, which has been under review. viii. Under section 4.5, *Responsibilities of Employees*, it should be stated that staff who are involved in or manage internal control systems should receive adequate training and support to carry out their duties. It should be explained that if an employee suspects fraud has taken place they should ensure they report their concerns in accordance with the methods described above for para 3.3. ix. Under a heading of 'Information management and technology' or similar, a separate section should explain the relevance of the Computer Misuse Act 1990 and that the fraudulent use of IT will be reported by the head of information security (or equivalent) to those responsible for investigating fraud. *Contd.*

DETAILED FINDINGS AND RECOMMENDATIONS

Area: Overall resilience to fraud	
Ref.	**Findings continued**
1	x. The range of sanctions available to the Council when dealing with fraudsters, and the conditions under which these may be used, are not clarified. Reference should be made to the relevant provisions within the Revenues and Benefits Service's *Sanctions and Prosecution Policy*, which should be replicated here so as to apply to *all* fraudsters, whether external or internal to the Council, not just to members of the public engaged in benefit fraud. xi. We found the existence, content and location of the policy was generally not well understood by staff interviewed for this assessment. The policy should be actively cascaded and advertised to all staff groups. xii. The policy needs a clearer introductory statement of intent that articulates a zero-tolerance approach to wrongdoing. xiii. Explicit reference should be made to the mechanisms available, such as civil action, for the recovery of losses due to fraud, bribery and corruption, together with a clear statement on the Council's commitment to recovery action. • Fraud, bribery and corruption risks are not included in the Council's operational or strategic risk registers (question 4). The Council needs to understand the financial and reputational risks posed by fraud, bribery and corruption and systematically record, mitigate and monitor these. • Estimating the underlying cost of fraud is key to developing a focussed and sufficiently resourced response to it. The extent to which the Council seeks to estimate the financial cost of fraud is limited to the Revenues and Benefits Service, focussing on fraudulent claims and overpayments to the general public, which does not cover the Council's operations in totality (question 5). • Similarly, the Revenues and Benefits Service is the only Council department that has used estimates of fraud losses to support a business case for investment in capacity-building to mitigate such losses (question 6). It should be noted that research has shown that such returns on such investment can be as high as 12:1; furthermore, in times of increasing pressure on public expenditure, cutting the cost of fraud may be one of the least contentious ways in which to achieve savings. • The amount of discussion about fraud at senior levels can indicate both how aware of the problem an organisation is and how seriously it treats it. Discussions with key staff revealed that fraud, bribery and corruption matters tend not to be formally discussed by Council members (question 8), possibly reflective of a cultural perception that fraud is an external problem confined principally to the Revenues and Benefits service. For example, one member of staff declared there was no fraud happening at the Council, a statement that appears at best naïve, not only in light of the results of this assessment which, coincidentally, included the uncovering of a bank mandate fraud the day before - see page 7 , but also in the context of government estimates that at least £2.2 billion is lost per annum to fraud in the local government sector (source: National Fraud Authority, 2011). • The Council does not have a clear work programme designed to improve organisational resilience to fraud, increase the deterrent effect and ultimately, develop a strong anti fraud, bribery and corruption culture (question 13). • Respondents noted that, with the exception of the Revenues and Benefits Service, the Council has not clearly articulated that it has a zero-tolerance approach to fraud, bribery and corruption (question 14). Recommendations have been made, above, to improve the Council's anti-fraud strategy and the management of fraud risks; however, the desired deterrence effect will result from a sustained commitment to tackling the problem which is expressed through management and staff behaviours as much as though policies and statements.

DETAILED FINDINGS AND RECOMMENDATIONS

Area: Overall resilience to fraud			
Ref.	**Findings continued**	**Priority**	**Recommendation**
1	• Respondents were near unanimous in confirming that the Council does not evaluate the maturity of its anti-fraud, bribery and corruption culture, and that it does not attempt to create a strong deterrent effect (questions 15 and 16). • Perceptions about the risks they face are a key component in the cost/benefit calculations of potential fraudsters. However, the promotion of counter fraud activity, policy and prosecutions, across the Council and to external stakeholders including the general public, is limited to the Revenues and Benefits Service (question 17). • Although policies and procedures are reviewed for compliance with regulations and legislation prior to ratification, there is no systematic consideration of fraud, bribery and corruption risks when such documents are conceived and drafted (question 18). With regard to systems, however, a significant commitment to improving the control environment at the Council was made with the introduction of a 'work-flow' expenses system in October 2014 as a replacement for paper-based processes. • Identifying and learning the lessons from fraud is an essential part of any investigation; however, it was found that, outside of the Revenues and Benefits Service, this is not routinely done (question 19). • No formalised performance management procedures, such as KPI reporting, are in place to monitor and improve the effectiveness of counter fraud work at the Council.	High High Medium Low Low	Fraud, bribery and corruption risks should be identified, recorded, mitigated and monitored using established risk management processes, including their inclusion on risk registers. This exercise, which includes this assessment, should be used to develop an annual counter fraud, bribery and corruption work plan, to address identified risks. Cases of fraud perpetrated against the Council, whether from an external or internal source and irrespective of department or service, must be properly investigated and reported on, with learning points fed into staff training and development The Council should address the suggested areas of improvement to its counter fraud, bribery and corruption policy and procedures, noted above, and articulate a robust and coherent anti-fraud message that extends beyond benefit fraud. Total losses to fraud should be estimated and used to inform investment decisions in counter fraud, bribery and corruption activities Key Performance Indicators or similar metrics should be developed to manage the performance of counter fraud, bribery and corruption activity
MANAGEMENT RESPONSE		**RESPONSIBILITY AND IMPLEMENTATION DATE**	
Fraud will be added to the risk register to raise corporate awareness and development. The Council's policies will be reviewed and undated to reflect these recommendations.		*Responsible Officer: Chris Leslie, Finance Director* *Implementation Date: December 2015*	

DETAILED FINDINGS AND RECOMMENDATIONS

Area: Finance			
Ref.	**Findings**	**Priority**	**Recommendation**
2	Discussion with key finance staff during this assessment highlighted two specific initiatives to help prevent fraud: annual participation in the Audit Commission's National Fraud Initiative; and the commissioning of independent data analytics expertise to identify duplicate invoices. However, it was noted that there is no formal training in anti-fraud, bribery and corruption delivered to staff.

During our fieldwork the Council inadvertently made an invoice payment of approximately £42k to a fraudster, who had previously submitted to the Accounts Payable (AP) team an email requesting a change of bank details for a known supplier. The request had been completed by AP staff without a follow-up telephone call to the supplier to confirm the change; as is common with such 'mandate fraud', the deception came to light only when the genuine supplier contacted AP to query where their payment was, by which time the monies had gone.

We advised the Council perform an immediate validation of all changes made to supplier standing data received since January 2015, prioritising those made in the last 30 days, and recommended that our internal audit team conduct an in-depth review of AP procedures, focussing on the management of standing data and controls around payments to suppliers. The review found that suppliers had been contacted directly to confirm changes of bank details in only half the cases sampled. In total, two high, four medium and one low risk recommendations have been raised in the report.

Further, an internal audit review of the Payroll function, currently in draft pending management responses, found there to be significant control weaknesses over starters and leavers, with the risk that fictitious employees could be added to the payroll, and overpayments made to those who have left. | High

Medium | Implement the recommendations made within the *Accounts Payable (Audit 1. 2015)* and *Payroll (Audit 10. 2015)* reports.

Provide anti-fraud, bribery and corruption training to staff in finance, housing and grants teams. |
| **MANAGEMENT RESPONSE** | | **RESPONSIBILITY AND IMPLEMENTATION DATE** | |
| *Training will be given by an external provider to increase staff knowledge.* | | *Responsible Officer: Chris Leslie, Finance Director*

Implementation Date: December 2015 | |

DETAILED FINDINGS AND RECOMMENDATIONS

Area:	Housing Tenancy and Right to Buy (RTB)		
Ref.	**Findings**	**Priority**	**Recommendation**
3	**Housing Tenancy** Senior management staff stated that amendments made last year to the allocations policy, specifically around credentials and eligibility, had led to a reduction in the social housing waiting list of approximately 600 applicants. All applications for the letting of social housing are subject to separate review by the Housing Officer and Allocations Manager as a standard operating procedure, prior to authorisation. Police and Social Services are contacted to verify the information provided. Additionally, any specific medical criteria within an application are verified by an independent GP. Despite these segregation of duties, however, the allocations process remains vulnerable to abuse due to the lack of applicant ID checks performed. It was confirmed that someone collecting the keys to a property would not have to provide positive ID in order to do so, and that prior to this, no ID checks would have been carried out to confirm that the personal details on the application form were genuine. It was noted that from May 2015 the Housing team will be conducting initial visits within the first four weeks of a new tenancy to identify and address any issues and concerns; clearly, however, a more robust pre-tenancy process will prove more efficient in identifying and preventing potential cases of fraud. **RTB** There is at present no formal policy at the Council covering RTB in general, only a standard form and local government guidance. RTB applicants are not interviewed as part of the process, nor is their ID verified; thus an applicant could be approved to purchase a significant Council asset without ever being met with in person. An RTB applicant is required to have been a public sector tenant for at least five years, which the Council verifies by contacting the landlord. The application ('RTB1') form requires little detailed personal and / or background information, a weakness raised in January 2015 by the RTB Officer at a sector anti-fraud workshop; however, the form is in a standard format mandated by the Department for Communities and Local *Contd.*	High Medium Medium Medium	Produce an RTB policy and associated procedures that incorporate anti-fraud, bribery and corruption and AML measures, including the requirement for applicants to declare the source of funding for purchases and to meet with Council staff to verify their identity. Robust ID checks should be incorporated into housing tenancy allocations. Ensure cases of fraud, bribery and corruption are investigated fully, with written reports addressing the causes and key learning points to help drive improvement Improve the sharing of tenancy information across the Council such that key information contained in hard copy housing files is readily available via Orchard to staff who need it Introduce a verification of occupancy within the Council's routine maintenance inspection regime.

DETAILED FINDINGS AND RECOMMENDATIONS

Area: Housing Tenancy and Right to Buy (RTB) contd.			
Ref.	**Findings continued**	**Priority**	**Recommendation**
3	Government. The form asks for information where funding for an applicants purchase is coming from, but this field is not mandatory and can be left blank. This raises anti-money laundering (AML) as well as fraud, bribery and corruption concerns. If an applicant is in receipt of full benefits, however, the form is passed to the fraud team within the Revenues and Benefits Service for a meeting attended by the RTB Officer. In May 2014 an RTB request was received that arose from the handling officer's suspicions due to the familiarity of the tenant's name in connection with a previous issue some years prior, although no narrative notes had been recorded on Orchard, the Council's tenancy management system, to this effect. Checking the applicant's hard copy housing file, the RTB officer found the last entry, from 2011, was a notice seeking repossession of the property as the tenant had provided fraudulent information on at least three housing application forms in relation to owning another property. The repossession was not carried out, which is understood to be the result of staff leaving the Council and a failure to properly hand over the case, and the tenant accrued the five years of occupancy required to be eligible for RTB and submitted their application. Inexplicably, the application was allowed to proceed following Council legal advice; subsequent repossession of the property was sought through the courts and was achieved after four months, in April 2015. It was confirmed that no formal report was made into the causes of this case and the lessons to be learnt from it. The RTB team is taking steps to address these evident control deficiencies by sharing concerns with and seeking guidance on good practice from other local authorities, notably Slough Council on policy matters and Epping Council on a more robust RTB application process, such that a robust policy and accompanying procedures can be introduced.		

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
Overall we consider the report to be a fair assessment. Will we deliver the recommendations as per below: 1. *Produce an RTB policy and associated procedures that incorporate anti-fraud, bribery and corruption and AML measures, including the requirement for applicants to declare the source of funding for purchases and to meet with Council staff to verify their identity. Robust ID checks should be incorporated into housing tenancy allocations.* 2. *Ensure cases of fraud, bribery and corruption are investigated fully, with written reports addressing the causes and key learning points to help drive improvement.*	*Responsible Officer: Helen Gregory, Head of Housing* *Implementation Dates:* 1. *Drafted and tenant group consulted prior to submission to Housing Committee on 9 December 2015* 2. *Immediate implementation, with lessons learned discussed in team meetings*

Contd.

DETAILED FINDINGS AND RECOMMENDATIONS

Area: Housing Tenancy and Right to Buy (RTB) contd.	
MANAGEMENT RESPONSE	**RESPONSIBILITY AND IMPLEMENTATION DATE**
3. *Improve the sharing of tenancy information across the Council such that key information contained in hard copy housing files is readily available via Orchard to staff who need it.* 4. *Introduce a verification of occupancy within the Council's routine maintenance inspection regime. There is a need to consider the most efficient method of completing this; we will consider options and look to implement next April 2016.*	3. *Immediate implementation.* 4. *April 2016, following options appraisal*

DETAILED FINDINGS AND RECOMMENDATIONS

Area: Revenues and Benefits Service			
Ref.	Findings	Priority	Recommendation
4	Fraudulent exploitation of the 24 exemptions and 12 discounts to Council Tax (CT) and Business Rates (BR) represent a significant area of financial risk to the Council, the single person discount of 25% especially so. The Compliance Team checks a random 5% sample of discounts and exemptions daily to verify these have been applied correctly; however, they are looking for system and clerical errors, rather than fraud. To address this issue the Council is considering investing in data analytics software ('Equifax') to cross-reference applications for discounts and exemptions with information held in a range of other databases, such as Social Services, the Electoral Register and academic institutions (to confirm whether in full time higher education, for example). The software assesses each application, allowing for data-led, targeted investigations of applicants deemed higher risk. Equifax is a joint project across all 14 authorities in the area, plus the County Council. Review of the business case shows forecast savings to the tax base of approximately £300k or 3% of revenue, although this is likely to be a conservative estimate. Data analytics is a fast-growing and powerful fraud reduction tool whose effects can be magnified by a collaborative approach; the Equifax initiative is therefore considered a potentially significant demonstration of an effective 'invest to save' approach to counter fraud. It is acknowledged that the majority of fraud expertise and experience resides within the Revenues and Benefits Service; beyond the department, however, staff awareness of and training in anti-fraud, bribery and corruption is limited, and would benefit from an increased sharing of knowledge and best practice across the organisation.	Medium	The Revenues and Benefits Service to lead on work across departments to deliver a formal and regular programme of anti-fraud, bribery and corruption training to staff. Priority staff groups for bespoke training are finance (see reference 2) and grants teams (see reference 5).

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
The Revenues & Benefits service's Housing Benefit Fraud Investigation team will move to a Single Fraud Investigation Service (SFIS) administered by DWP from 1st September 2015. To mitigate the loss of the fraud investigators, two new compliance roles have been created to ensure customer compliance with awards of Council Tax exemptions and discounts and Business Rates discounts and reliefs. Any potential fraud identified by the Compliance team will be referred to the Basildon fraud investigation team for further action. This leaves the service with no expertise in Fraud Investigation and therefore it will be unable to deliver any anti-fraud, bribery or corruption training for the rest of the Council. Revenues & Benefits, however, is now in a shared service partnership with Basildon Borough Council and therefore delivery of this training may be available through an expansion of the partnership scope.	*Responsible Officer: Rick Steels, Revenues and Benefits Manager* *Implementation Date: 1st October 2015*

DETAILED FINDINGS AND RECOMMENDATIONS

	Area: Grants		
Ref.	**Findings**	**Priority**	**Recommendation**
5	**Community Fund** The Brentwood Community Fund awards sums of up to £3,500 - from a total annual 'pot' of £50,300 – to support small-scale projects that link to one or more of the Council's community-based priority areas: localism (volunteering); housing, health and wellbeing; 'a prosperous borough'; and 'a safe borough'. Applications are appraised by a panel of three officers in accordance with prescribed guidance; successful bidders must agree to Terms and Conditions that include the submission to the Council of a monitoring form and associated receipts, to show that the project has delivered its remit and that appropriate expenditure has been incurred; funding may be withheld or clawed back for projects that fail to demonstrate this. Due to resource constraints the Council is unable to verify the extent of a project's delivery as described in the monitoring form, which is taken largely on trust. It is accepted that the monetary value of the fund, whether considered per project or in aggregate, is small. **Independent Living Grants** The Council awards approximately £150k per annum for elderly and / or disabled residents to facilitate their independent living through adaptations and renovations to their homes. The maximum size of a single grant is approximately £20,000. Needs assessments are carried out on behalf of the Council by a home improvement agency established in partnership with Papworth Trust. The agency conducts home visits and obtains quotes and schedules of work from approved contractors which it checks for reasonableness before returning the application to the Council case officer and Grants Team Leader for approval. Monies are paid to the applicant, who personally commissions the work required. The above process has been mapped by the Council and the partnership with the Papworth Trust is subject to a formal service specification; however, it was noted that the Grants team does not receive anti-fraud, bribery and corruption training and that awareness of these risks is acknowledged to be low, despite the prevalence of cash transfers to the general public and the significant number of third parties involved.	Low	*A recommendation to deliver anti-fraud, bribery and corruption training should to Council staff has been made at reference 2.* The Grants team should inspect a small number of community fund projects, selected using a risk-based approach, to verify information provided on the monitoring form.

MANAGEMENT RESPONSE	**RESPONSIBILITY AND IMPLEMENTATION DATE**
Accepted; higher value community fund grants will be targeted to ensure projects have delivered as agreed.	*Responsible Officer: Kim Anderson, Partnership, Leisure and Funding Officer* *Implementation Date: December 2015*

DETAILED FINDINGS AND RECOMMENDATIONS

Area: Members interests and expenses			
Ref.	Findings	Priority	Recommendation
6	A register of interests is kept for the Council and nine parish councils in the area. In accordance with the Localism Act 2011, members must within 28 days of election and / or appointment (and re-election / re-appointment) record in the register details of any Disclosable Pecuniary Interest and, under the Council's constitution, Other Pecuniary Interests and Non-Pecuniary Interests that they or their partner or spouse may have. New interests must be notified in writing to the Council's Monitoring Officer, who sends an annual reminder to members that they should ensure the register is kept up to date. Members are required by law not to take part in meetings in which they have a pecuniary interest, and to declare prior to the start of a meeting any hitherto undeclared interests, pending their formal entry into the register. While acknowledging that maintenance of an accurate register is the ultimate responsibility of individual members, it is noted that there is at present no independent assurance over the effectiveness of this process, which the Council may wish to seek in light of the first known prosecution under the Localism Act, in April this year, of a councillor from East Dorset District Council, for his taking part and voting in a meeting in which he had a pecuniary interest.	Medium	Conduct a periodic sample audit of the members' register of interests to provide assurance that disclosable pecuniary and other pecuniary interests and Non-Pecuniary Interests are being declared in accordance with the Localism Act 2011 and the Council's constitution.

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
Accepted; periodic audit checks are now being undertaken and will continue. An annual reminder has gone out to councillors – this is normally done in June after Annual Council in May, when changes are most likely.	*Responsible Officer: Chris Potter, Monitoring Officer and Head of Support Services* *Implementation Date: Completed*

APPENDIX I – STAFF INTERVIEWED

NAME	JOB TITLE
Rick Steels	Revenues and Benefits Manager
Chris Potter	Monitoring Officer and Head of Support Services
Phil Ruck	Business Development Manager
Ashley Culverwell	Head of Borough Health, Safety and Localism
Kim Anderson	Partnership, Leisure and Funding Officer
Helen Gregory	Head of Housing
Linda Philips	Right to Buy Officer
Sue White	Risk and Insurance Officer
Chris Leslie	Finance Director

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

APPENDIX II – TERMS OF REFERENCE

BACKGROUND ▶ Brentwood Borough Council ('the council') has proposed a business case to strengthen resources within a counter fraud and compliance team (currently the Controls Team), which would require the inclusion of qualified and experienced fraud investigation staff to allow for complete and detailed investigation to be undertaken where necessary. A full counter fraud risk assessment is deemed a key prelude to these developments, in order that the potential scale of fraud within the council can be identified.

PURPOSE OF REVIEW ▶ The purpose of conducting a fraud risk assessment (FRA) is to identify areas of risk in key departments and develop strategies to mitigate these risks. The outcome of the FRA should be used to review and inform service and corporate risk registers.

SCOPE OF REVIEW ▶ The review will consider the following fraud risk areas:

- Council Tax and Business Rates
- Employee fraud
- Insurance claims
- Grants
- Councillors' expenses
- Abuse of position
- Housing Tenancy
- Right to Buy
- Management override of controls, including manipulation of performance data and financial journals

APPENDIX II – TERMS OF REFERENCE

EXCLUSIONS ▶ Our work will be restricted to the areas of consideration within the scope of our review. Our review will not cover detailed testing of controls identified.

APPROACH ▶ Our approach will be to conduct interviews with key staff to identify fraud risks in each department and the current controls in place to mitigate these risks, such that areas of significant control weakness and fraud risk can be highlighted.

LOCATIONS ▶ Fieldwork will be performed exclusively at Brentwood Borough Council offices.

APPENDIX II – TERMS OF REFERENCE

DOCUMENTATION REQUEST

Please provide the following documents in advance of our review (where possible):

- Counter Fraud Policy
- Sanctions and Prosecutions Policy
- Whistle-blowing policy

Any documents provided will assist the timely completion of our fieldwork, however we may need to request further documentation and evidence as we progress through the review process.

KEY CONTACTS

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BRENTWOOD BOROUGH COUNCIL		
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Steve Summers, Head of Customer Services	Key contact, Council Tax and Business rates and employee fraud	e: steve.summers@brentwood.gov.uk t: 01277 312 629
Chris Leslie, Financial Services Manager	Key contact, insurance claims and grants; Councillors' expenses and abuse of position	e: christopher.leslie@brentwood.gov.uk t: 01277 312 542

APPENDIX II – TERMS OF REFERENCE

KEY CONTACTS CONTD. ▶

BRENTWOOD BOROUGH COUNCIL		
Helen Gregory, Interim Head of Housing	Key contact, housing tenancy and Right To Buy fraud	e: helen.gregory@brentwood.gov.uk t: 01277 312 586
Ashley Culverwell, Head of Borough Health, Safety and Localism	Key contact, licensing fraud	e: ashley.culverwell@brentwood.gov.uk t: 01277 312 506

PROPOSED TIMETABLE ▶

Audit Stage	Date
Commence fieldwork	16 March 2015
Number of audit days in plan	20
Planned date for closing meeting	10 April 2015
Planned date for issue of the draft report	17 April 2015
Planned date for receipt of management responses	1 May 2015
Planned date for issue of proposed final report	8 May 2015

APPENDIX III – FRAUD RESILIENCE QUESTIONNAIRE

Self Assessed Fraud Resilience Questionnaire			
#	**Question**	**✓/✗**	**Evaluation**
1	Does the organisation have a written counter fraud and corruption strategy?	✓/✗	A revision to the Council's counter fraud strategy, first published in November 2012, was submitted to members for approval on 24 March 2014; however, consideration of the document was deferred pending changes to the constitution. It was noted that of the nine staff interviewed for this assessment, only the Head of Support Services was aware of the current status and location of the strategy.
2	Does the strategy have a clear objective of better outcomes (i.e. reduced losses to fraud) and not just activity (i.e. the number of investigations, prosecutions, etc.)?	✗	Our review of the document has raised a number of improvements to consider; these are detailed at pages 5-6, above.
3	Has the strategy been directly agreed by those with executive authority for the organisation?	✗	
4	Are fraud, bribery and corruption risks included in the organisation's Risk Register (or equivalent)?	✗	The Council's strategic and operational registers reviewed as part of this assessment did not include any references to fraud, bribery or corruption. One member of staff suggested the level of fraud within the Council was so low as to not warrant its inclusion as a risk.
5	Does the organisation seek to estimate the total economic cost of fraud to it?	✓/✗	This activity is limited to the Revenues and Benefits team, which provides quarterly reports to the Audit and Scrutiny Committee on fraud referrals, the number of successfully concluded cases, levels of overpayment, and recovery rates. No estimates are produced for the economic cost of all fraud to the Council in totality, however.
6	Does the organisation use estimates of losses to make informed judgements about levels of budgetary investment in work to counter fraud and corruption?	✓/✗	As above, loss estimation is carried out within the Revenues and Benefits Service only, which has set itself a target of recouping 60% of benefit fraud, with forecast savings included in a Business Case to support further investment in the Council's counter fraud function.

APPENDIX III – FRAUD RESILIENCE QUESTIONNAIRE

Self Assessed Fraud Resilience Questionnaire			
#	Question	✓/✗	Evaluation
7	Do those tasked with countering fraud and corruption have any special authority to pursue their remit?	✓	Fraud investigators within Revenues and Benefits have 'authorised officer' status and are Professionalism in Security (PINS) qualified, which confers powers of investigation and intelligence gathering.
8	Are reports about work to counter fraud and corruption discussed at Board ('Member') level?	✗	Discussion with key staff found that fraud and corruption tend not to discussed by Council members, which is not surprising given that fraud risks are not recorded in operational or strategic risk registers (see question four). It is noted that reports relating to benefit fraud are presented on a quarterly basis to the Audit and Scrutiny committee.
9	Have all those working to counter fraud and corruption received the specialist professional training and accreditation for their role?	✓	As noted above, the Council's Revenues and Benefits Service investigators are trained to the PINS standard, which was developed by the Department of Work and Pensions (DWP) for those working to counter benefit fraud.
10	Do those working to counter fraud and corruption regularly update and refresh their skills?	✓	Yes; this is a requirement of PINS accreditation. Further, joint working with DWP investigators enables the Council's team to exchange guidance and good practice.
11	Are checks undertaken on the propriety of new staff (beyond simply reference checks)?	✓	Disclosure and Barring Service (DBS; formerly CRB) checks are undertaken for staff who engage directly with the public, such as Housing Officers, Sheltered Scheme Managers and Revenues and Benefits teams. HR recruitment form VC1 prompts for whether a DBS check is required, which is for individual managers to determine.

APPENDIX III – FRAUD RESILIENCE QUESTIONNAIRE

	Self Assessed Fraud Resilience Questionnaire		
#	**Question**	**✓/✗**	**Evaluation**
12	Are there relationships in place with relevant external agencies or organisations (e.g. the police, specialist legal firms who could advise on civil litigation, etc.)? Formal? Informal?	✓	Both formal and informal relationships exist between council services and the police, DWP and Social Services. In-house legal counsel is available, with specialist advice sought externally when required.
13	Does the organisation have a clear programme of work attempting to create a real anti-fraud and corruption culture?	✗	No; however this assessment should be viewed as a necessary starting point.
14	Has the organisation made clear that it has a zero-tolerance approach to fraud and corruption?	✓/✗	Only one respondent felt that the Council had clearly articulated a zero-tolerance approach to the problem of fraud, bribery and corruption that applies to the whole organisation. The Revenues and Benefits Service summarises on the Council's website the benefit fraud cases it has prosecuted in the previous financial year, with links to the service's sanctions policy (refer to question 25, below). Similarly, the Housing team has a webpage describing Housing fraud and how to report it, although there is no reference to specific sanctions or historical cases. The Council's *Anti Fraud And Corruption Policy and Guidance* should be more explicit in articulating a zero-tolerance approach – see page 6.
15	Are there arrangements in place to evaluate the extent to which a real anti-fraud and corruption culture exists or is developing throughout the organisation?	✗	This exercise may be considered to be an important first step in developing an effective anti-fraud culture within the Council, whose members and employees have tended to regard fraud as a Revenues and Benefits issue only.
16	Does the organisation attempt to create a strong deterrent effect?	✗	No respondents felt that the Council attempts to create a strong deterrent effect.

APPENDIX III – FRAUD RESILIENCE QUESTIONNAIRE

	Self Assessed Fraud Resilience Questionnaire		
#	**Question**	**✓/✗**	**Evaluation**
17	Does the organisation seek to publicise: i. the hostility of the honest majority to fraud and corruption? ii. the effectiveness of preventative arrangements? iii. the sophistication of arrangements to detect fraud and corruption? iv. the professionalism of those investigating fraud and corruption and their ability to uncover evidence? v. the likelihood of proportionate sanctions being applied? vi. the likelihood of losses being recovered?	✓/✗	The Council's Revenues and Benefits Section publicises the work of its Fraud Investigation Team, covering the six areas described here, via the Council website, internal staff bulletin and local press releases. However, as noted earlier, Council activities relate to benefits and Council Tax fraud only, and not to fraud and corruption in a wider, organisational sense.
18	Does the organisation seek to design fraud and corruption out of new policies and systems and to revise existing ones to remove apparent weaknesses?	✓/✗	Staff interviewed stated that the Council drafts its policies to ensure compliance with legislation and, where possible, best practice. However, there is no automatic consideration of fraud in this process to 'design out' the risk. It is noted that the Council's upgraded overtime and expenses system, which came on line in October 2014, represent a significant commitment to improve resilience to fraud in this area.
19	Where an investigation into fraud take place do reports cover identified policy and systems weaknesses?	✗	Interviews with key staff found that policy and systems weaknesses were not routinely considered following fraud investigations.
20	Does the organisation have a formal or informal policy setting out how it tries to detect possible fraud?	✓/✗	See responses to questions 1-3, above.
21	Are analytical intelligence techniques used to examine data and identify potential fraud and corruption?	✓	The Finance team has used data analytics to identify duplicate invoices, as well as participating in the annual National Fraud Initiative (NFI) to help uncover fraud trends and potential areas of weakness. Furthermore, the Revenues and Benefits Service is currently exploring the use of data analytics county-wide as part of a collaborative project with neighbouring local and county authorities, and has identified significant potential savings from a data-led approach to examining claims.

APPENDIX III – FRAUD RESILIENCE QUESTIONNAIRE

	Self Assessed Fraud Resilience Questionnaire		
#	**Question**	**✓/✗**	**Evaluation**
22	Are there arrangements in place to ensure that suspected cases of fraud or corruption are reported promptly to the appropriate person for further investigation?	✗	The Council's *Anti Fraud and Corruption Policy and Guidance* and *Anti-Bribery Policy* refer staff to a different document, the *Whistle blowing Policy*, for detail on the process for reporting suspected wrongdoing. Recommendations have been raised at pages 5-6, above.
23	Is the organisation's investigation work carried out in accordance with clear guidance?	✓	The Revenues and Benefits Service fraud team conducts investigations in accordance with PINS training, which links to key legislative guidance including Police And Criminal Evidence Act 1984 and Criminal Procedure and Investigations Act 1996.
24	Do those undertaking investigations have the necessary powers, both in law, where necessary, and within the organisation?	✓	Yes; see above.
25	Does the organisation have a clear and consistent policy on the application of sanctions where fraud or corruption is proven to be present?	✓/✗	The Council's Revenues and Benefits Service has produced a comprehensive *Sanctions and Prosecution Policy* aimed at the general public, Council employees and Council members. The policy is clear on the circumstances under which a range of sanctions would be imposed, and also covers the reporting and publicity of these. However, the policy relates to benefits offences only. The Council's *Anti Fraud and Corruption Policy and Guidance,* which covers employees and members found to be engaged in 'theft and dishonesty', is far less detailed. It does not describe the full range of possible sanctions nor the criteria under which they would be sought. A recommendation has been raised to address this – refer to page 6, above.

APPENDIX III – FRAUD RESILIENCE QUESTIONNAIRE

	Self Assessed Fraud Resilience Questionnaire		
#	**Question**	**✓/✗**	**Evaluation**
26	Are all possible sanctions - disciplinary / regulatory, civil and criminal - considered?	✓	This was confirmed through reference to Council policies and interviews with key staff.
27	Does the organisation have a clear policy on the recovery of losses incurred to fraud and corruption?	✗	A recommendation to address this has been raised at page 6, above.
28	Does the organisation use the criminal and civil law to the full in recovering losses?	✓	Both criminal and civil legal remedies are used to recover losses suffered principally through benefit, Council Tax and Housing tenancy fraud.
29	Does the organisation regularly review the effectiveness of its counter fraud work against agreed performance indicators?	✗	This does not happen at present.

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