

## North York Moors National Park Authority Finance, Risk Audit and Standards Committee

5 June 2017

### Fraud Risk Review

#### 1. Purpose of the Report

- 1.1 To update Members on the current arrangements for the prevention and detection of Fraud and an assessment of the proportionality of the approach adopted at the North York Moors National Park Authority.

#### 2. Background

- 2.1 One of the issues that the auditors highlighted during the work on the 15/16 accounts was that it has been a considerable period of time since the Fraud and Corruption Risk was discussed by Members. Although there are many systems in place for the prevention and detection of fraud the Policy Framework which is included in the Members Handbook has not been reviewed by Members since 2006. Fraud and Corruption is no longer reported to Members as a high level Strategic Risk. The rationale for this is that the control systems, especially in relation to procurement, grants, income and expenses are effective and therefore, it has been judged as lower risk, this will be reviewed again for the Strategic Risk Register update for the September meeting of this committee.

- 2.2 CIPFA have issued guidance which recommends that organisations adopt the following principles:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.

The Authority's governance arrangements have already embedded these principles but, given the passage of time and changes to the culture of the organisation, it is potentially an ideal opportunity to take stock and review the policies in line with the Code of Practice on Managing the Risk of Fraud and Corruption. The guidance on this recognises the issue of proportionality and Members should be aware that the opportunities for fraud and corruption to take place are relatively limited and the systems of internal control are designed to prevent and detect fraud and appropriate action has been taken when investigations have identified fraudulent activity.

- 2.3 The Director of Corporate Services has undertaken a review of the arrangements in the light of the guidance issued by CIPFA. The purpose of the report is to update Members on the current risks and arrangements for managing the risks and identify any areas for potential improvement which is proportionate to the level of the risk.
- 2.4 One of the main areas of best practice is that an organisation has a 'Fraud Strategy' the Authority has a set of policies in place which amount to an effective fraud strategy but does not have a single document which is called the Fraud Strategy.

Members are requested to consider whether it would be proportionate to adopt a Fraud Strategy as a single document.

2.5 The NPO will delegate responsibility for overseeing the Fraud and Corruption work to a nominated Officer who will then ensure that appropriate reports to those charged with governance are made.

2.6 Best practice indicates that Fraud and Corruption should feature on the Strategic Risk Register. A decision has been taken in the past that as the level of risk has been ranked as relatively low that it should not be classed as a Strategic Risk. The recommendation is that this risk be reinstated on the Strategic Risk Register and reported to Members at the next review.

### 3. **Types of Fraud and Corruption Risk to which the Authority is potentially Exposed**

3.1 The Authority does not administer the range of functions that other local authorities administer and as a result the level of fraud risk is considerably lower; for example the Authority does not deal with Revenues and Benefits claims. However, there are a number of Fraud and Theft Risks which are applicable to the Authority these include:

- Procurement and Payment Fraud
- Payroll and Expenses
- Breach of IT Security,
- Payment of Grants to Third Parties
- Cash Handling
- Conflict of Interests

3.2. In order to mitigate the risk in relation to Procurement and Supplier Payment Processes the following key controls are in place:

- Officers and Members are required to declare interests in accordance with the relevance Codes of Conduct.
- The Financial Regulations establish very clear rules and processes for the procurement of Goods and Services
- throughout the process different people are involved in authorisation which is strictly controlled within the Finance System itself
- All appropriate data is published in accordance with the Transparency Code
- Changes to bank account details will only be actioned on if received in writing
- Veritau circulate regular warnings about potential risks

3.3 The set-up of new employees in the Payroll System is strictly controlled and verified and all expense claims are authorised before payment.

3.4 The security of the Authority's IT systems and data is of paramount priority and anti virus software is regularly updated, tests have been conducted in relation to the use of 'phishing' and 'whaling' techniques. The Authority ensures that operating system updates are applied in a timely manner in order to minimise the risk of cyber attack. Further information is provided in the ICT Update at Item 19 of this agenda. The Authority ensures that any electronic payment channels are compliant with the Payment Card Industry Standards. All systems are regularly backed up and Disaster Recovery Arrangements are tested.

3.5 Stringent controls are in place in relation to the management of income received and where relevant control of inventory.

- 3.6 The Authority spent approximately £350k in 15/16 through Grants to Third Parties. These are subject to strict controls and checks to ensure that value for money is achieved, the work is completed and payment is authorised on receipt of copies of paid invoices where appropriate. Each grant fund has agreed criteria and where appropriate financial ceilings, standard costs and intervention rates. There is a separation of duties in terms of authorising the grant offer, certifying the work has been satisfactorily completed and the amount for payment and making the payment. Physical spot check inspections of the work are undertaken to ensure that it is completed to an acceptable standard. In circumstances where opportunities arise to undertake significant projects which are beneficial to the delivery of national park purpose but which fall outside of the agreed criteria a Member decision is sought in relation to confirming the grant offer.
- 3.7 Inevitably, no system of control will provide 100% assurance but the level of fraud and theft that has been experienced by the Authority has been low. The controls appear to be effective and there has only been one case within the last 5 years that has required proceedings. The Annual Audit Plan ensures that systems are tested regularly to ensure that the controls are in place and recommend improvements to mitigate against Fraud. The Authority seeks to continue to reinforce our counter fraud culture and although there is not a dedicated in-house Counter Fraud Team the Authority has found innovative ways to ensure that services can be accessed as and when required. For example, the Authority has used Veritau to conduct specific investigations, reported to the Police if appropriate and investigated options for outsourcing the services of trained Financial Investigators to act in relation to potential Proceeds of Crime claims in relation to Enforcement Cases. It is recommended that this is the approach that the Authority seeks to continue as it is adaptable and proportionate to the size of the organisation and level of risk.

#### 4. **Financial and Staffing Implications**

- 4.1 The financial implications are described in the report.

#### 5. **Sustainability and Legal Implications**

- 5.1 There are no sustainability or legal implications arising from this report.

#### 6. **Recommendation**

That Members

- 6.1 Consider whether it is appropriate to develop a 'Fraud Strategy' which identifies the linkage with the other policies and practices and make recommendations.
- 6.2. Approve the continuation of the use of independent outside investigators to work on the counter fraud activity.
- 6.3 To agree that the Fraud and Corruption Risk should be reinstated to the Corporate Risk Register at the next review.

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#### **Background documents to this report**

None

#### **File Ref**