



**METROMAYOR**  
LIVERPOOL CITY REGION

# COUNTER-FRAUD UPDATE



**Audit and Governance Committee**  
**2 October 2019**

**Laura A. Williams MA CPFA**  
**Head of Internal Audit**

# Contents

	Page
1. Introduction	2
2. Background	3
3. Managing the Risk of Fraud and Corruption	6
4. Proactive Fraud Work	9
5. Reactive Fraud Work	11
6. Embedding an Anti-Fraud Culture	12
7. Fraud, Bribery and Corruption Policy	16

## 1. Introduction

- 1.1 The purpose of this report is to provide a detailed update on activity and plans in place to manage the risk of fraud and corruption in the organisation. It supplements the details provided in the Internal Audit Performance Reports presented to each meeting of this Committee.
- 1.2 It is prepared for the Audit and Governance Committee and its purpose is to facilitate the Committee in discharging its obligations as defined in its Terms of Reference: “to review the Combined Authority’s financial affairs, internal control, corporate governance arrangements and risk management”. It is intended to assist in continuing the progress made to date in embedding an anti-fraud culture into the organisation.
- 1.3 The report covers:
- Background detailing relevant offences and the role of internal audit in fraud matters;
  - Detail on the recently updated self-assessment exercise on CIPFA’s *Code of Practice on Managing the Risk of Fraud and Corruption in Local Government (2015)*;
  - Update on the proactive counter-fraud work undertaken by internal audit;
  - Update on reactive counter-fraud work undertaken by internal audit; and
  - Details on how an anti-fraud culture is being embedded into the organisation;
- 1.4 The report concludes by presenting the updated Fraud, Bribery and Corruption Policy for the approval of this Committee.

## 2. Background

### 2.1 Defining Fraud and Corruption Offences

2.1.1 Section 1 of the Fraud Act 2006 defined a general offence of fraud and three ways in which it may be committed:

- Fraud by false representation;
- Fraud by failing to disclose information; and
- Fraud by abuse of position.

Fraud by false representation requires:

- Dishonesty;
- An intent to make gain or cause loss; and
- The person makes the representation knowing that it is or might be false or misleading.

Fraud by failing to disclose information requires:

- Dishonesty;
- An intent to make gain or cause loss; and
- Failure to disclose information where there is a legal duty to disclose.

Fraud by abuse of position requires:

- Dishonesty;
- An intent to make gain or cause loss; and
- Abuse of a position where one is expected to safeguard another person's financial interests.

2.1.2 The Bribery Act 2010 has defined the following offences that collectively may be termed “corruption”:

- Offering, promising or giving a bribe;
- Requesting or agreeing to receive a bribe;
- Bribery of a foreign public official; and
- The corporate offense of failing to prevent a bribe.

It is worthy of note that the legislation states that it will be a defence against the corporate offence if an organisation has “adequate procedures” in place to prevent bribery.

## 2.2 Public Sector Statistics

2.2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre (CFC) estimates that fraud and corruption costs the UK public sector over £20.5 billion annually, and identifies the main areas of fraud within the sector. Within those areas, the following are of relevance to the LCRCA:

- Procurement;
- Debt;
- Insurance claims;
- Economic and voluntary sector (grant fraud);
- Recruitment;
- Insider fraud – payroll / expenses/ abuse of work time or position.

## 2.3 Role of Internal Audit

2.3.1 The role of Internal Audit in respect of counter-fraud is to:



- Prepare and maintain a suite of relevant counter-fraud policies for the organisation;
- Promote an anti-fraud culture by raising awareness of fraud issues amongst officers and members, including through the provision of counter-fraud training;
- Facilitate the identification of fraud risks and the subsequent management of these through service delivery areas;
- Undertake proactive audit work to prevent and detect fraud, including the review of fraud controls (where relevant) in each audit review; and
- Undertake the investigation of frauds perpetrated against the organisation or emanating from within the organisation, where this is deemed appropriate, including the subsequent reporting of findings, conclusions and recommendations to senior management.

The Head of Internal Audit is also the designated Money Laundering Reporting Officer (MLRO), which entails acting as the main contact for receiving reports of suspected money laundering, and carrying out the associated reporting.

## 3. Managing the Risk of Fraud and Corruption

- 3.1 CIPFA published the *Code of Practice on Managing the Risk of Fraud and Corruption in Local Government* in 2014. The Code is not mandatory but it represents best practice, and compliance with the principles set out in the Code enables the organisation to demonstrate effective financial stewardship of public funds.
- 3.2 The Code has established a common set of principles for managing the risk of fraud and corruption.
- 3.3 The principles are:
- Acknowledge the responsibility 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; and
  - Take action in response to fraud and corruption.
- 3.4 Beneath each of these principles, there is a number of performance statements that are used to evaluate the effectiveness of the organisation in managing the risk of fraud and corruption. The document takes the form of a self-assessment that examines all aspects of the organisation's strategic focus on and response to, the risk of fraud and corruption.
- 3.5 The self-assessment has now been fully refreshed to reflect the broadening remit of the organisation, and the new areas of fraud risk that may present themselves as a result of the activities of the LCRCA.
- 3.6 The self-assessment indicated 85% compliance with its requirements. This is a reduction in the level of compliance from 2017-18, when it was assessed that there was full compliance with the Code, as all actions were deemed to have been implemented. This more prudent assessment is reflective of the work required to encapsulate the CA's arrangements within the Counter Fraud policy environment and the need to expand and develop the effectiveness of fraud risk management.

3.7 The actions arising from the self-assessment are detailed in the following table:

Ref	Action	Implementation Due Date	Comments
1	Update Counter Fraud and Corruption Policy and Strategy so as to include all relevant areas of the Code of Practice. Report this to Audit and Governance Committee and Merseytravel for approval and then publish to all staff via I4P.	October 2019	This report addresses this action.
2	Consider adding responsibilities for managing the risk of Fraud and Corruption to the Scheme of Delegation.	March 2020	
3	Participate in International Fraud Awareness week in November 2019.	November 2019	
4	Deliver e-learning fraud awareness training to all staff, and monitor the take-up levels.	March 2020	e-learning available from June 2019
5	Report to LCRCA re adoption of the Code of Practice and associated actions.	October 2019	This report addresses this action.
6	Review MRFG benchmarking exercise and participate as appropriate. Explore opportunities to benchmark or undertake joint working with other Mayoral Combined Authorities.	March 2020	Initial discussions taking place.
7	Consider running Fraud Risk Workshops within Departments, especially those where fraud risks have been identified as most significant.	March 2020	
8	Review Fraud Risk Register and include actions to address fraud risks. Establish regime of regular updates, including consideration of any new or emerging fraud and corruption risks.	October 2019	Review in progress as part of update of Service Risk Registers.
9	Introduce fraud risks to Risk Module on MKinsight.	October 2019	To be completed as part of the update of Service Risk Registers, which is underway.
10	Consider inclusion of financial loss estimates in relation to fraud risks.	March 2020	
11	Provide annual report on counter-fraud activity, including measuring progress against the Code of Practice self-assessment.	October 2019	This report addresses this action.

*Table 1*



**LIVERPOOL  
CITY REGION**  
COMBINED AUTHORITY

**METROMAYOR**  
LIVERPOOL CITY REGION

- 3.8 However, such a level of compliance is still very positive and reflects the proportionate arrangements in place to manage the risk of fraud. This Committee will be kept apprised of the implementation of the actions identified as a result of the self-assessment.

## 4. Proactive Fraud Work

### 4.1 Internal Audit Plan

4.1.1 The Internal Audit Plan 2019-20 includes 25 days for proactive counter-fraud work across both the Combined Authority and Merseytravel. It is also of note that key anti-fraud controls are also evaluated as part of a significant number of other audits within the Plan.

4.1.2 The Plan includes the following areas of focus:

Audit Title	Audit Days	Progress Report
Gifts and Hospitality	5	Audit not commenced
Conflicts of Interest	4	Audit not commenced
Creditors Duplicate Payments	2.5	Handover arrangements to the Creditors team are in progress
Insurance Claims	5	Audit commenced
Payroll/ Establishment Reconciliation	1.5	Handover arrangements to the HR team are in progress
Corporate Credit Card	2	Audit not commenced
Time and Attendance	5	Audit commenced

### 4.2 National Fraud Initiative

4.2.1 Internal Audit oversees and co-ordinates the organisation's involvement in the National Fraud Initiative (NFI). This is a national exercise, and it is a requirement that the organisation participates. The main NFI data matching is undertaken every two years, the results of these matches is fed into a national report at the end of each cycle.

- 4.2.2 Data from the Payroll and Creditors systems are uploaded to the dedicated Cabinet Office website, and are matched with data within and between participating bodies so as to identify potential frauds and errors. On receipt of the results, the organisation has responsibility to follow up and investigate the matches.
- 4.2.3 Data for this cycle was uploaded during October 2018 in accordance with the NFI timetable, and matches were received in late January 2019.
- 4.2.4 Progress in reviewing the matches received has been positive, and it is also positive to say that the matches investigated to date had already been detected by management processes. There is further work to do and once this is concluded, the findings will be reported to this Committee, but it appears unlikely at this stage that there will be significant issues or savings identified. One of the matches detected in the payroll – creditors match has highlighted the need for the update and re-launch of the corporate process for declaration of interest, so that all staff are aware of the need to consider this and report any potential conflicts. This has been reported to relevant officers for action.

## 5. Reactive Fraud Work

- 5.1 There is a provision of 15 audit days in the Internal Audit Plan 2019-20 for the investigation of allegations of fraud, bribery or corruption.
- 5.2 Internal Audit will become involved in the investigation of such allegations where the allegation requires the specialist skills possessed by the service. Such work can entail examination of key records, interviewing staff to obtain information, and evaluation of evidence, culminating in the production of a report for management giving recommendations that detail actions to address issues identified. Such reports will conclude on whether, on the basis of the work undertaken, the allegation is believed to be founded or not. The report will often also include details of improvements to the system of internal control more widely, so as to strengthen the anti-fraud controls in place.
- 5.3 During 2019-20 to date, there has not been any significant referrals made to Internal Audit. The only time that has been spent has been in the conclusion of an investigation into the Mersey Rural Leader grant, the work having commenced in 2018-19. It has been reported to this Committee previously that the outcome of the investigation was that there was no evidence of fraud, but there was a number of recommendations made to management to improve the controls in a number of areas.
- 5.4 It is also a requirement of the Fraud, Bribery and Corruption Policy that Internal Audit is notified of any frauds detected within the organisation.

## 6. Embedding an Anti-Fraud Culture

### 6.1 Fraud Risks

6.1.1 A Fraud Risk Register was prepared in the past for Merseytravel, and this contained specific transport-related fraud risks. However, the risks identified had not been placed under the “ownership” of Heads of Service, so the Risk Register did not highlight the specific actions to be taken in respect of each risk, and so there was no reflection of how the risks were being managed. In addition, by being held by Internal Audit, the Register gave the impression that it is the responsibility of Internal Audit to manage the risks.

6.1.2 So as to make the identification and management of fraud risk more effective, by bringing this under the direct attention of Heads of Service, an exercise is underway to review and update the identified fraud risks. Rather than a single set of fraud risks being held centrally, each Head of Service will have relevant fraud risks contained within their Service Risk Register. This is so that they can evaluate the risk for their service, look at how the risk is being managed within the context of their service, and propose actions for the continued management of the impact and/or likelihood of each risk.

6.1.3 The risks that had been identified are now in the process of being fully updated, and a number of new risks have also been added, to ensure that the risks reflect LCRCA activities.

6.1.4 The risks under consideration are:

Generic risks – which would apply to most organisations:

- Cyber
- Tangible assets
- Bribery
- Procurement
- Creditors

- Debtors
- Treasury Management
- Insurance
- False Accounting
- Money Laundering
- Payroll
- Recruitment

Specific risks – which relate to the activities of this organisation:

- Misuse of grant funding
- Improper use of powers
- Adult education provider, falsification of records
- Concessionary travel
- Ticketing

## 6.2 Engagement with Fraud Groups

- 6.2.1 Internal Audit participates in the Mersey Region Fraud Group, which is comprised of the constituent local authorities within the LCRCA area. The group is developing a regional approach to counter fraud, including the production of generic policies and procedures and undertaking collaborative working in targeted areas, such as data matching and other counter fraud exercises.
- 6.2.2 Internal Audit also contributes to the North West Chief Audit Executives Counter-Fraud Sub Group, which develops practical solutions to mitigate current and emerging fraud risks and responds to sector-related change and challenges.

6.2.3 As both of these Groups comprise local authorities, which have a different range of services and associated fraud risks, there can be limited applicability to the LCRCA of some of the activities being undertaken. For this reason, it is hoped that some information sharing and potential future collaborative work with other Mayoral Combined Authorities can be explored in the months ahead, and initial discussions of this have begun.

### **6.3 Training and Awareness**

6.3.1 In June 2019, an e-learning package on Fraud Awareness was developed and launched to all staff. The package is a basic introduction, and covers fraud, bribery, corruption and money laundering, and the key actions employees should take to prevent and detect fraud in their areas of responsibility. To date, a very small number of employees have undertaken the training, and the next step is to carry out direct follow up work with Departments to boost the take-up rates. Consideration is also being given to offering fraud workshops for staff working in higher risk areas.

6.3.2 A fraud awareness campaign is planned to be undertaken in November 2019, to coincide with International Fraud Awareness Week. The aim of the week is to heighten the awareness of the scale of fraud in the public sector, to direct all employees to complete the Fraud Awareness e-learning course (as highlighted in 5.2.1 above) and to encourage them to report any suspicions of fraud that they may have. This will also coincide with the proposed launch of the Fraud, Bribery and Corruption Policy, which is appended to this report, and will see a series of fraud awareness messaging being published on the Intranet.

### **6.4 Policy Framework**

6.4.1 Internal Audit has responsibility for maintaining the organisation's counter-fraud policies. These form an important part of the management of fraud risk by setting the tone, culture and expectations of the organisation.

6.4.2 The policies in place comprise:

- Fraud, Bribery and Corruption Policy – this has been fully updated and is presented for approval by this Committee;
- Bribery Policy – this was updated and was approved by this Committee at its meeting on 20 March 2019;



- Money Laundering Policy – this was updated and was approved by this Committee at its meeting on 20 March 2019;
- Confidential Reporting (Whistleblowing) Policy– this was updated and was approved by this Committee at its meeting on 20 March 2019;
- Surveillance Policy – this was updated and was approved by this Committee at its meeting on 20 March 2019; and
- Investigations Protocol – this was updated and was approved by this Committee at its meeting on 20 March 2019

6.4.3 Once each policy receives approval, it is disseminated to staff, like all policies across the organisation, via the Insight4Policies (“I4P”) system, which requires staff to read and acknowledge understanding of the policy. Acknowledgement levels of the policies issued is at 75%, which is a very positive level. Follow up work is ongoing with Departments, and will also feature as part of Fraud Awareness Week, to remind all staff to read and acknowledge the policies.

6.4.4 During the year to date, there have been no reports made to Internal Audit under any of these policies. It is important that the profile of such policies is raised so that staff feel confident and comfortable in making any reports they deem necessary, and that they are aware of their responsibilities in doing so. An absence of reports under the policies could indicate a lack of awareness of confidence in these matters. Ongoing work to promote the policies and ensure staff awareness and basic training in fraud matters should secure a more positive culture where staff feel able to report any issues concerning them.

## 7. Fraud, Bribery and Corruption Policy

- 7.1 The Fraud, Bribery and Corruption Policy identifies the organisation's commitment to an effective approach to managing the risk of fraud, bribery and corruption, as part of its overall governance arrangements. The Policy sets out the organisation's stance on fraud, bribery and corruption, and identifies the range of measures at the disposal of the organisation in the prevention and detection of fraud.
- 7.2 The Policy has been fully reviewed and updated so as to:
- Enable the LCRCA to be fully integrated within the Policy and provide clear adoption of the Policy by LCRCA officers and members;
  - Provide clearer guidance on the roles and responsibilities of all key players in the organisation in respect of fraud, bribery and corruption; and
  - Reflect the recent self-assessment against the CIPFA *Code of Practice on Managing the Risk of Fraud and Corruption* (2015).
- 7.3 The updated Policy is presented for the consideration and approval of this Committee.