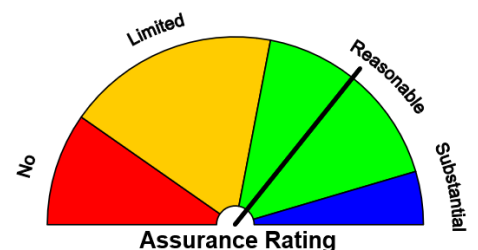




Derbyshire Fire & Rescue - Anti-Fraud & Corruption 2022-23 Final Audit Report



Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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1 Executive Summary

1.1 Scope of Audit

1.1.1 This audit focused on the anti-fraud and corruption governance framework, together with the reporting and investigation of fraud and corruption within the Service.

1.2 Summary of Audit Findings

Control Objectives Examined	No of Controls Evaluated	No of Adequate Controls	No of Partial Controls	No of Weak Controls
There is a framework of anti-fraud and corruption strategies and policies in place.	11	6	2	3
There are adequate arrangements for reporting and investigating fraud and corruption and officers are aware of their responsibilities.	11	7	4	0
TOTALS	22	13	6	3

1.2.1 The following issues were considered to be the key control weaknesses:

Rec Number	Risk Rating	Summary of Weakness	Agreed Action Date
1	Low Risk	There was no Anti-Money Laundering Policy and money laundering was not referred to within the Anti-Fraud and Corruption Strategy, Policy Note or Service Procedure.	31/03/2023
2	Moderate Risk	A Fraud Risk Assessment had not been performed.	31/03/2023
3	Moderate Risk	There was no anti-fraud work plan in place.	31/03/2023
4	Low Risk	The Whistleblowing Public Interest Disclosure Service Procedure did not include a commitment to training workers or a timeframe for handling any disclosures raised.	31/03/2023
5	Low Risk	The Outside Employment Register was not routinely shared with Procurement.	31/03/2023
6	Low Risk	Training provided to employees on fraud matters and conflicts of interest was insufficient.	31/03/2023

1.2.2 This report focuses on the weaknesses in the Organisation's systems of control that were highlighted by this audit and recommends what Audit considers to be appropriate control improvements. This report contains 6 recommendations, 4 are considered a low risk and 2 a moderate risk. Another 2 minor risk issues have been highlighted for management's consideration.

1.3 Summary of Control Assurance Provided

1.3.1 **Reasonable** - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

1.4 Distribution & Communication

1.4.1 The draft report was issued to Louise Taylor, Solicitor and Monitoring Officer, Simon Allsop, Joint Director of Finance & Business Services, and Mark Nash, Interim Treasurer / S151 Officer, for comment.

This final version will be issued to Gavin Tomlinson, Chief Fire Officer/Chief Executive with copies to:

- Louise Taylor, Solicitor and Monitoring Officer.
- Mark Nash, Interim Treasurer / S151 Officer.
- Davinder Johal, Interim Director of People Services.
- Helen Minion, Strategic HR Partner.

This report was produced by Susannah Leask, Principal Auditor and reviewed by Hannah McDonald, Group Auditor and Mandy Marples, Audit Manager. Any enquiry concerning the content of this report or associated issues may be made to Susannah Leask, Principal Auditor on 01332 643356.

2 Positive Assurance

2.1.1 We attempted to establish whether the Organisation's system of control for the following areas contained all the key controls expected of a sound and robust process. Through a combination of control evaluation and testing we confirmed that the following adequate controls were in operation:

2.2 Framework

- We found that the Anti-Fraud and Corruption Policy Note (February 2022), Service Procedure (February 2022) and Strategy (September 2022) set out the Service's commitment to fighting fraud and corruption in all of its activities, and its intention to prosecute. The Service Procedure detailed arrangements for the prevention, detection and response to fraud and set out the responsibilities of employees and members, including responsibilities assigned to specific job roles. Related documents including the Whistleblowing Policy, Financial Regulations and Codes of Conduct were highlighted as forming part of the anti-fraud and corruption framework.
- We confirmed that bribery was included within the scope of the Anti-Fraud and Corruption Strategy.
- The Code of Conduct for Employees was dated January 2022. A new national Core Code of Ethics for Fire and Rescue Services had been developed and we confirmed that this was incorporated into the Code of Conduct and the national ethical principles were aligned with the Service's values. The ethical principles and values were becoming embedded within the organisation through the recruitment and induction process, incorporated into policies as they were revised, and a programme of face-to-face training.
- The adoption of Service values such as openness and integrity should contribute to deter fraud and corruption. The Code of Conduct set out several specific requirements which would contribute to the prevention and detection of fraud, for example, the challenge of conduct where it fell below expected standards and the reporting of conflicts of interest. It also referred to relevant policies such as the Outside Employment Policy and the Gifts, Hospitality and Benefits Policy.
- The Members Code of Conduct had been revised and approved by the Standards Committee in June 2022. This was now based on the Local Government Association's model Code of Conduct and incorporated the national Core Code of Ethics. Training on the new Members Code of Conduct was due to be delivered in November 2022.
- A local Code of Corporate Governance was approved by the Fire Authority in June 2022. This set out the seven principles of CIPFA/SOLACE Delivering Good Governance in Local Government (2016) and how each of them would be met. Principle A 'Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law' referred to the anti-fraud and corruption policies and procedures together with other relevant documents we have reviewed during this audit.
- The Financial Regulations and Procedures, including Contract Standing Orders, were reviewed and approved by the Fire Authority in December 2021. While recent audits covering financial and procurement matters had identified that some controls required strengthening, no breaches with possible fraud or corruption implications had been identified.

2.3 Reporting and Investigation

- In addition to the Whistleblowing Public Interest Disclosure Service Procedure, reporting procedures including the Grievance Policy and Procedure and the Complaints and Feedback Policy Note provided further mechanisms through which possible fraud or corruption could be identified and reported. A spreadsheet was maintained by the Monitoring Officer recording cases subject to investigation involving HR; a log of external complaints was also held.
- The Anti-Fraud and Corruption Service Procedure confirmed that any employee committing a fraudulent or corrupt act against the Authority would be subject to Derbyshire Fire and Rescue Services disciplinary procedures. The Discipline Policy & Procedure (January 2021) specified that both theft or fraud and other offences of dishonesty or failure to follow Service Financial Regulations, Procedures and Standing Orders and serious corrupt or improper practice constitute gross misconduct and may lead to dismissal without notice. Sanctions

were dealt with in the Anti-Fraud and Corruption Policy Note which stated, 'We aim to prosecute anyone who commits fraud and corruption as this is an important way of discouraging other people from committing fraud in future'.

- The Gifts, Hospitality and Benefits Service Policy (January 2022) set out the circumstances in which a gift or hospitality may be considered acceptable and included a form to be completed and returned to the Monitoring Officer should gifts or hospitality be offered, whether accepted or not. These were compiled into a central Register of Gifts and Hospitality which was published on the Service's website.
- The Monitoring Officer and the Section 151 Officer took a lead role in directing any investigations required. We established that there had been minimal instances of suspected fraud in recent history. Where issues were clearly restricted to individuals, disciplinary investigations could be undertaken by HR or outsourced to an HR consultancy. We confirmed that where senior officers or financial systems and records were involved, or there were potentially service-wide issues, external support from Internal Audit was sought.
- The Anti-Fraud and Corruption Policy Note confirmed that Internal Audit's work covered internal fraud investigations to deal with any type of fraud or corruption by members of staff or by contractors. The 2022/23 Internal Audit Plan stated that 'Internal Audit may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the organisation).'
- The most recent piece of investigation work undertaken by Internal Audit was in 2019-2020 and was reported to the Governance and Performance Working Group in November 2019; Internal Audit had also been approached for advice on other possible issues related to fraud and corruption.
- With respect to Members, the Anti-Fraud and Corruption Service Procedure stated that any Member committing a fraudulent or corrupt act against the Authority would be subjected to the Authority's procedures for dealing with complaints of misconduct against Members operated by the Monitoring Officer/Standards Committee. The Members Handbook set out these procedures including how it should be determined whether an investigation is required, when a referral should be made to the Standards Committee Hearing Board, and what sanctions could be imposed. It also stated that should an investigation be required the investigator may be a senior officer of the Authority or another Council or Fire & Rescue Authority, or an external investigator with relevant experience.
- The Monitoring Officer was required to report complaints to the Standards Committee. The 2021/22 Annual Report of the Monitoring Officer presented to the Fire Authority in June 2022 recorded that the Standards Committee had not had to consider any referrals in respect of allegations of breaches of the Members Code of Conduct during the period, and we verbally confirmed that there had been none since.

3 Minor Risk Issues

- 3.1.1 During the course of this audit, we have identified control issues which are considered to pose only a minor risk to the Organisation. As such, we have not raised formal recommendations for management to respond to and we do not intend to formally follow up any of these issues. Management is at liberty to take whatever action it deems necessary to mitigate the following minor risks:

3.2 Policies

- The Anti-Fraud and Corruption Service Procedure did not accurately reflect the activities of the Governance & Performance Working Group (GPWG).

The GPWG was the body responsible for monitoring effectiveness of anti-fraud and corruption strategies and policies. Terms of Reference for the GPWG included:

‘To monitor effectiveness and outcomes relating to Authority policies on Whistle blowing, Anti-fraud and Anti-corruption strategy, external Complaints Procedure, employee Grievance Procedure, Bullying and Harassment Procedure, and Disciplinary Procedure.’

The Anti-Fraud and Corruption Service Procedure further detailed that:

‘The Governance & Performance Working Group Terms of Reference outline their responsibility to “monitor Authority policies on the anti-fraud and anti-corruption strategy”. The Governance & Performance Working Group also has a responsibility to monitor and, where necessary, *challenge the Authority’s risk management processes, including the management of identified fraud risks*. Members of the Governance & Performance Working Group receive regular updates from the Head of Audit and Risk Management in relation to fraud cases and the action taken. Members of the Governance & Performance Working Group challenge management where significant risks are identified in Internal Audit reports.’

We confirmed that the GPWG received the Annual Governance Statement which provided information on whistleblowing, external complaints, and the work of the Standards Committee, and we were informed by the Monitoring Officer that any issues arising would be reported by exception. We further confirmed that, when Internal Audit were engaged to undertake investigation work, this had been reported to GPWG. However, we identified that there were some aspects of the statement included within the Anti-Fraud and Corruption Service Procedure which were not strictly correct. These were as follows:

- While the GPWG did challenge the Authority’s risk management processes, this did not extend to the management of identified fraud risks as no fraud risks had been formally identified.
- While the GPWG did receive reports from Internal Audit on investigations undertaken, these were not regular reports, only being received when a piece of investigation work was required.
- The role of Head of Audit and Risk Management has not existed for several years and is now fulfilled by the Audit Manager (Chief Audit Executive).

We suggest that the statement in the Anti-Fraud and Corruption Service Procedure is reviewed to ensure that, after other recommendations made in this audit report have been implemented, it accurately reflects the situation in practise.

3.3 Reporting and Investigation

- The Service is not a member of NAFN, the National Anti Fraud Network.

We found that the Monitoring Officer and Director of Finance ensured that they were appraised of developments and regulatory changes relating to anti-fraud and corruption through continuing professional development activities and membership of various professional networks. However, the Fire and Rescue Service did not have membership of NAFN, which provides access to data, intelligence and training to support anti-fraud activities.

We suggest that the Service considers becoming a member of NAFN to ensure access to current intelligence and demonstrate commitment to anti-fraud and corruption.

4 Control Weaknesses & Recommendations

4.1 Policies

4.1.1 We expected that an Anti-Money Laundering Policy would be in place.

We found that the Anti-Fraud and Corruption Strategy defined the term fraud and corruption as including bribery, deception, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion.

Money laundering was not included within the scope of the Strategy, there was no reference to it within the Strategy, Policy Note or Procedure, and there was no separate Anti-Money Laundering Policy.

If money laundering is not included within the scope of the Service's anti-fraud arrangements, there is a risk that sufficient consideration may not have been given to the risk of money laundering and consequent actions required to prevent, detect and respond to money-laundering.

Recommendation 1	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: There was no Anti-Money Laundering Policy and money laundering was not referred to within the Anti-Fraud and Corruption Strategy, Policy Note or Service Procedure.</p> <p>Suggested Actions: We recommend that money laundering is included within the scope of the Anti-Fraud Strategy, Policy Note and Service Procedure.</p>	<p>Responsible Officer: Louise Taylor</p> <p>Issue Accepted</p> <p>Agreed Actions: Introduce Anti-Money Laundering Policy and amend the Anti-Fraud and Corruption Strategy, Policy Note or Service Procedure to include reference to money laundering</p> <p>Implementation Date: 31/03/2023</p>

4.1.2 We expected that a Fraud Risk Assessment would be undertaken periodically.

We found through discussion with the Monitoring Officer and Director of Finance that fraud risks faced by the Service were being considered and there was an awareness of the heightened degree of risk due to the current economic climate. There was also evidence of mitigating actions taking place to reduce some of these risks.

However, we established that the risk of fraud was not recognised in the Corporate Risk Register and a comprehensive analysis of the Service's exposure to fraud risk had not been undertaken in the form of a structured Fraud Risk Assessment.

If a Fraud Risk Assessment is not performed, there is a risk that the impact and likelihood of possible fraud risks is not fully understood and appropriate mitigating controls are not put in place, which may increase the Service's exposure to fraud.

Recommendation 2	Summary Response
<p>Risk Rating: Moderate Risk</p> <p>Summary of Weakness: A Fraud Risk Assessment had not been performed.</p> <p>Suggested Actions: We recommend that a formal Fraud Risk Assessment is undertaken to identify the fraud risks faced, their likelihood and impact. Mitigating controls should be clearly identified and assigned and should be sufficient to reduce residual risk to an acceptable level. Following this, consideration should be given to including pertinent fraud risks in the Corporate Risk Register.</p>	<p>Responsible Officer: Mark Nash</p> <p>Issue Accepted</p> <p>Agreed Actions: Carry out formal Fraud Risk Assessment.</p> <p>Consider pertinent fraud risks in the Corporate Risk Register</p> <p>Implementation Date: 31/03/2023</p>

4.1.3 We expected that there would be an approved and monitored anti-fraud work plan.

We found that there were various activities undertaken which would contribute to preventing, detecting and responding to fraud. These included:

- Internal audit work targeting areas with a fraud risk attached, for example, Corporate Credit Cards, Cyber Security, Procurement and On Call Payments.
- Monitoring of high value overtime claims.
- Review of policies and procedures linked to fraud.
- Training of staff in the values of the organisation.
- Mandatory Cyber Security Awareness e-Learning.
- Participation in the National Fraud Initiative.

While some anti-fraud and corruption activities were taking place, these were not formally identified in an anti-fraud work plan and it was not possible to determine whether they were sufficient to address the fraud risks faced by the Service.

If an anti-fraud work plan is not produced there is a risk of a lack of clarity over how fraud risks identified are being addressed, which may leave the Service more susceptible to fraud.

Recommendation 3	Summary Response
<p>Risk Rating: Moderate</p> <p>Summary of Weakness: There was no anti-fraud work plan in place.</p> <p>Suggested Actions: We recommend that an anti-fraud work plan is created annually setting out the proposed work to be undertaken to prevent, detect and respond to fraud. This should be linked to the Fraud Risk Assessment. Progress against the anti-fraud work plan should be reported to the Governance and Performance Working Group annually. This will ensure that identified fraud risks are adequately addressed and the Governance and Performance Working Group is provided with sufficient information to fulfil its role in monitoring the management of identified fraud risks.</p>	<p>Responsible Officer: Louise Taylor</p> <p>Issue Accepted</p> <p>Agreed Actions: Create anti-fraud work plan and review annually.</p> <p>Progress to be reported to GPWG annually.</p> <p>Implementation Date: 31/03/2023</p>

4.2 Reporting and Investigation

4.2.1 We expected that a Whistleblowing Policy would be in place.

We found that a Whistleblowing Public Interest Disclosure Service Procedure, reviewed in January 2022 and available on the intranet, was in place to allow employees and other workers to raise concerns about fraud, crime, breaches of policies and serious risks. The procedure provided sources of external advice to assist workers in determining whether a whistleblowing report would be appropriate and set out how concerns should be raised. There had been no whistleblowing complaints made in 2021-22 or to date in 2022-23.

We reviewed the Whistleblowing Public Interest Disclosure Service Procedure against guidance provided by the Department for Business, Energy & Industrial Strategy (BEIS) and identified the following omissions:

- A commitment to training workers at all levels of the organisation in relation to whistleblowing law and the organisation's policy.
- An idea of the time frame for handling any disclosures raised.

If the Whistleblowing Public Interest Disclosure Service Procedure does not include the above information there is a risk of a lack of clarity over the process which may deter disclosures being made.

Recommendation 4	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: The Whistleblowing Public Interest Disclosure Service Procedure did not include a commitment to training workers or a timeframe for handling any disclosures raised.</p> <p>Suggested Actions: We recommend that the Whistleblowing Public Interest Disclosure Service Procedure is revised to ensure it includes:</p> <ul style="list-style-type: none"> • A commitment to training workers at all levels of the organisation in relation to whistleblowing law and the organisation's policy. • An idea of the time frame for handling any disclosures raised. <p>in line with the guidance provided by BEIS.</p>	<p>Responsible Officer: Louise Taylor</p> <p>Issue Accepted</p> <p>Agreed Actions: Whistleblowing Public Interest Disclosure Service Procedure to be revised to include:</p> <p>A commitment to training workers at all levels of the organisation in relation to whistleblowing law and the organisation's policy.</p> <p>An idea of the time frame for handling any disclosures raised.</p> <p>Amend in line with the guidance provided by BEIS.</p> <p>Implementation Date: 31/03/2023</p>

4.2.2 We expected that a Register of Interest would be maintained to ensure transparency.

We found that an Outside Employment Policy (May 2022) set out the process for gaining approval for employment with outside organisations. This policy stated that applications could be refused where a conflict of interest existed, or a reasonable person might perceive a conflict to exist. It also confirmed that personal interests with providers of goods or services should be declared by members or employees where their role held within the Service would lead to a perceived conflict of interest. Staff were made aware of the policy through their Contract of Employment and HR induction, and the policy and application form were located on the intranet. Applications required approval at Group Manager or Head of Department level, details were held on the HR system and yearly updates were requested from all those with a recorded outside employment.

A Register of Interests for the Senior Leadership Team was maintained by Finance and updated annually, as reported in the 2021/22 Annual Report of the Monitoring Officer to the Fire Authority in June 2022.

To ensure conflicts of interest were considered during procurement decisions a standard form had recently been introduced for completion at the initiation of a procurement process. This required staff involved to disclose any conflicts of interest which could compromise the procurement process.

However, we identified that information on outside employment was not routinely shared with the Procurement team to enable any potential conflicts to be considered in purchasing decisions.

If information on outside employment is not shared with Procurement there is a risk that potential conflicts of interest will not be considered in purchasing decisions, which may provide an avenue for potential corruption.

Recommendation 5	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: The Outside Employment Register was not routinely shared with Procurement.</p> <p>Suggested Actions: We recommend that the Outside Employment Register is shared with Procurement, or an addition is made to the Intention to Commence Procurement form to cover outside employment.</p>	<p>Responsible Officer: Louise Taylor</p> <p>Issue Accepted</p> <p>Agreed Actions: Outside Employment Register to be shared with Procurement (subject to Data Protection provisions)</p> <p>Implementation Date: 31/03/2023</p>

4.2.3 We expected that there would be a programme of training and awareness ensuring that all officers understood their responsibilities regarding Anti-Fraud and Corruption.

We found that the Anti-Fraud and Corruption Service Procedure stated that:

'the Authority is committed to training and communication routines whereby Members of the Authority, managers and employees can be informed of or updated with the relevant facts that will aid their vigilance'.

The Anti-Fraud and Corruption Service Procedure and Policy Note, the Whistleblowing Policy, and other related policies and procedures were available to staff on the internal SharePoint, and the induction process signposted to this location. Employees were also required to complete a mandatory Cyber Security Awareness E-Learning course (compliance stood at 80.8% in October 2022).

The services of Protect, the national whistleblowing charity, had been secured to deliver training to HR on whistleblowing. The intention was that following this, wider training would be rolled out to managers, aiming to increase manager confidence in dealing appropriately with possible allegations and foster a better awareness of the potential fraud and corruption implications which might arise from whistleblowing allegations.

However, there was no training or communications planned for other employees, to ensure that they had a good awareness of the indicators of fraud and corruption and the relevant policies and procedures in place. Furthermore, there was no training provided to all employees regarding conflicts of interest, to ensure adequate disclosure of any possible conflicts arising.

If adequate training is not provided to all employees on fraud matters and conflicts of interest, there is a risk that employee awareness will be insufficient which may hamper prevention and detection of fraud and corruption.

Recommendation 6	Summary Response
<p>Risk Rating: Low Risk</p> <p>Summary of Weakness: Training provided to employees on fraud matters and conflicts of interest was insufficient.</p> <p>Suggested Actions: We recommend that training covering fraud awareness, whistleblowing and conflicts of interest is developed and delivered to all employees.</p> <p>This could be through face-to-face training, webinars, e-learning modules and/or periodic articles in staff newsletters and should include real life examples.</p>	<p>Responsible Officer: Louise Taylor</p> <p>Issue Accepted</p> <p>Agreed Actions: Training on fraud awareness, whistleblowing and conflicts of interest will be developed and delivered to all employees.</p> <p>Implementation Date: 31/03/2023</p>

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The central midlands audit partnership was formed to provide shared internal audit services to local authorities in the region. CMAP currently provides audit services to three District Councils, a Unitary Council, a Housing ALMO and a Fire Authority.

