

Audit Panel

Wednesday, 2nd September, 2009

MEETING OF AUDIT PANEL

Members present: Councillor Rodgers (Chairman); and
Councillors Ekin, Mullaghan and Rodway; and Dr. Smith.

In attendance: Mr. T. Salmon, Director of Corporate Services;
Mr. A. Wilson, Head of Audit, Governance and
Risk Services;
Mrs. H. Loudon, Head of Financial Services;
Mr. T. Wallace, Financial Accounting Manager; and
Mr. H. Downey, Committee Administrator.

Chairing of Meeting

In the absence of the Chairman, it was agreed that Councillor Rodway would Chair the meeting.

(Councillor Rodway in the Chair.)

Minutes

The minutes of the meeting of 15th June were taken as read and signed as correct.

(The Chairman, Councillor Rodgers, in the Chair.)

Fraud Update

The Panel considered the undernoted report:

“Purpose of Report

The purpose of this report is to inform the Audit Panel of recent developments in relation to fraud. At the request of the Assurance Board, this report has also been issued to Chief Officers to ensure they are apprised of developments in the area of fraud and reminded of their roles and responsibilities.

Relevant Background Information

(a) General

Prior to 2006 there was no legal definition of fraud. The introduction of the Fraud Act 2006 (effective from 15th January 2007), provided for a general offence of fraud, with three defined ways of committing fraud. These are:

- **by false representation (to make a gain or to cause loss to another, or to expose them to a risk of loss);**

- by failing to disclose information to another person where there is a legal duty to disclose information; and finally;
- by abuse of position.

Fraud always provokes great interest and concern in the public sector. This is because, as well as representing a criminal act, the occurrence of fraud often arises because of a perceived or actual failure on the part of public servants to exercise effective control to prevent fraud from arising in the first place.

(b) Risk of Fraud to Belfast City Council

As with other large organisations, the size and nature of activities undertaken by Belfast City Council (BCC) puts it at potential risk of loss due to fraud and corruption both from within and from outside the organisation. In particular activities such as procurement, contract management, the administration of grants, cash/income, expenses, use of credit cards are areas that, unless properly controlled, are at risk of loss through fraud.

However, in considering the risk of fraud to the Council it is important to note that the Council is not responsible for the management or administration of large benefits systems, for example, housing benefit. In this regard the level of financial risk to which the Council is exposed to in terms of fraud risk is not as significant as that in some other large public sector organisations. However, fraud is still a risk that needs to be taken seriously and properly managed; not least because of the threat to the Council's reputation that may arise as a result of negative publicity should a significant fraud take place.

(c) Belfast City Council Experience

Typically, each year, Audit, Governance and Risk Services (AGRS) may undertake between 3-4 investigations, arising as a result of audit work, issues reported to the Council by whistleblowers, issues reported to us by managers/staff that relate to potential fraud. In the last ten years four investigations have found evidence of fraud and in all cases disciplinary action has been subsequently taken and/or the case referred to the police after consultation with the Fraud Response Group or its predecessor, the Defalcation Panel. In many other cases investigations have highlighted control weaknesses which need to be addressed to reduce the risk of fraud and these have been reported to the appropriate managers for action.

(d) The Council's existing Counter Fraud arrangements

The Council's current policies with regard to Fraud and Corruption and Whistleblowing were last reviewed / updated in 2008 and were formally approved by the Audit Panel on 29 September 2008. The policies are on the Council's intranet site. They detail roles and responsibilities in relation to preventing fraud; investigating fraud and also the arrangements in place for handling concerns raised by whistleblowers (these concerns can involve allegations of fraud). The fraud policy also highlights that the primary responsibility for preventing fraud lies with management, through the:

- Identification of risks to which systems and procedures are exposed;
- Implementation, documentation and operation of internal controls;
- Establishment of an environment that promotes compliance with internal controls;
- Promotion of fraud awareness amongst staff; and
- Fostering of an 'anti fraud' culture.

The Council's Financial Regulations/Accounting Manual require departments to have local, documented procedures in place, including, where appropriate, segregation of duties within key financial processes. This matter was recently re-enforced at the Business and Finance Managers' Group (BFMG), when the Acting Corporate Assurance Manager presented a paper to Business and Finance Managers re-iterating the requirement for local financial procedures and recommending a process for Departments to ensure these are brought up-to-date.

(e) Role of Audit, Governance and Risk Services (AGRS) and Fraud Awareness Training

AGRS does not have direct operational responsibilities for the prevention and detection of fraud; this rests with management. However, AGRS does, through its audit and risk management work, contribute to the management of the risk of fraud. In terms of audit planning, the Service undertakes an annual audit needs assessment exercise. This exercise involves the identification, risk assessment, and prioritisation of auditable areas. The risk assessment specifically involves a review of 'fraud risk'. As a result, the overall programme of audit work includes coverage of

areas inherently susceptible to the risk of fraud. Audits of these areas incorporate evaluation of the controls in place to mitigate the risk of fraud and review of samples of transactions. Where weaknesses in the systems of control are discovered recommendations for improvement are made and, in follow up audits, confirmation is sought as to whether the recommendations made have been implemented or not.

Another element of the work in which AGRS is involved is in the investigation of suspected fraud and/or whistleblowing cases that involve allegations of fraud. The service has two members of staff who have obtained the Advanced Professional Certificates in Investigative Practice (APCIP), enabling them to carry out fraud investigations in line with established best practice. In addition, AGRS routinely liaises with the Council's Legal Services Department while investigations are being conducted. Where investigations are undertaken a report will be produced for the Council's Fraud Response Group (FRG), summarising the findings of the investigation in relation to the initial allegation(s). The FRG comprises the Director of Corporate Services, Head of AGRS, a representative from Legal Services and a representative from Human Resources. The results of our investigations are summarised in the Head of AGRS' annual report to the Audit Panel/Assurance Board. Where control weaknesses are identified during the course of investigations, AGRS would issue audit reports with appropriate recommendations for improvement.

Over the past number of years AGRS has run some presentations/ training which have covered the areas of fraud risk. A more systematic approach is now being adopted whereby the Service in conjunction with specialists where appropriate (for example in relation to contract management) will run fraud awareness training sessions for managers in all departments. Training has already been provided to staff in the Chief Executive's Department and further sessions are scheduled. A programme of fraud awareness training will be rolled out to staff in all departments during 2009/10 and we have dedicated one officer to overseeing the delivery of this training.

**(f) New Initiatives on tackling fraud in the
Public Sector in Northern Ireland**

In recent years, government has placed considerable emphasis on the management of the risk of fraud by government departments, agencies and non-departmental public bodies. The practical implication of this for Belfast City Council has been increased interest from the Department of Finance and Personnel (DFP) and the Local Government Auditor (LGA) in terms of the

arrangements the Council has in place to manage the risk of fraud and the contribution we make to multi-agency working. Both the DFP and LGA have requested that the Council complete questionnaires on the Council's existing counter fraud arrangements. In addition, the Council has signed up to a Memorandum of Understanding (MOU) involving all large public sector organisations in Northern Ireland and the Police Service of Northern Ireland (PSNI). The MOU aims to establish a framework for ensuring that appropriate action is taken by public sector organisations in dealing with cases of suspected fraud and that the investigative process is conducted in accordance with the Police and Criminal Evidence (Northern Ireland) Order 1989 (PACE), where appropriate. The MOU also provides for the exchange of information between relevant parties i.e. the PSNI and any public sector organisation(s) affected, to ensure that such disclosures of information are done in a timely manner and comply with relevant legislation.

In October 2008 the Council was involved in carrying out a data matching exercise as part of a wider 'National Fraud Initiative' being conducted in conjunction with the Northern Ireland Audit Office and the Audit Commission. The data matching exercise has resulted in the Council providing data to the NIAO to determine if there are any matches with data held by other public sector bodies, for the purpose of detecting potential fraud. There has been 9,712 data matches, broken down as follows:

- Payroll related 93 cases
- Creditor related 492 cases
- VAT related 9,127 cases

Investigation into these cases is ongoing.

(g) Northern Ireland Audit Office report on the Investigation of Suspected Contract Fraud

In April 2009 the Northern Ireland Audit Office (NIAO) issued a report entitled 'The Investigation of Suspected Contract Fraud.' The purpose of the report was to examine the issues involved in preventing and investigating suspected fraud in public sector contracts and to point up what should be best practice. The report considered two cases from the Belfast Education and Library Board, namely:

- The investigation of whistleblower allegations of price-fixing and collusion in schools' maintenance expenditure; and
- Fraud investigation into library building works.

The NIAO report details the strengths and weaknesses of the investigation of the various allegations made in these cases and also considers the adequacy of BELB's controls to counter the risk of fraud.

A separate report has been prepared for the Assurance Board looking into the issues raised in the NIAO report and the process that is being adopted within the Council to manage the risk of this type of contractor fraud, which will include:

- Provision of fraud awareness training to relevant managers (using input from specialists);
- undertaking a detailed analysis of fraud and value-for-money risks in relation to contracts, taking account of risks such as cartels, collusion, internal fraud; and
- reviewing the controls currently in place to mitigate these risks, and, in doing so, checking to see that the issues contained in the NIAO report are being addressed.

Key Issues

To summarise:

- the size and nature of activities undertaken by Belfast City Council (BCC) puts it at potential risk of loss due to fraud and corruption both from within and from outside the organisation. In particular activities such as procurement, contract management, the administration of grants, cash/income, expenses, use of credit cards are areas that, unless properly controlled, are at risk of loss through fraud. The risk of fraud increases in a recession. The fact that Belfast City Council does not currently administer major benefit schemes reduces this risk when compared to many government agencies;
- Management is responsible for the prevention of fraud and must ensure that adequate controls are put in place to counter the risk of fraud;
- The level of reported/proven fraud in the organisation over the last 10 years has been relatively low;
- The Council has established policies and procedures for reporting and investigating fraud and is implementing a programme of fraud awareness training for managers; and

- **There is no room for complacency. Counter fraud arrangements, including policies, control processes and fraud awareness training are critical to managing the risk of fraud. Chief Officers and the Audit Panel have an important role to play in terms of setting the ‘tone at the top’, through promoting compliance with key Council policies and processes and ensuring that decisive action is taken to address reported control weaknesses that could give rise to an increased risk of fraud.**

Resource Requirements

There are no resource requirements relating to this paper.

Recommendations

The Audit Panel is asked to:

1. **Note the work that has been undertaken and is ongoing to manage the risk of fraud;**
2. **Note that fraud is an area on which central government and the Council’s external auditors are seeking regular assurances regarding the Council’s counter-fraud arrangements;**
3. **Note the important role that it can play in promoting compliance with key Council policies and processes and in seeking assurances that decisive action is taken to address reported control weaknesses that could give rise to an increased risk of fraud; and**
4. **Note that the Head of Audit, Governance and Risk Services will continue to report to the Panel on the issue of fraud and will also report to the Chief Officers’ Management Team approximately three times a year with regular updates on fraud.”**

After discussion, the Panel adopted the recommendations.

Publication of Employee Travel Costs

The Panel was reminded that the Strategic Policy and Resources Committee, at its meeting on 24th October, 2008, had approved a policy for staff attending events. As part of the policy, it had been agreed that information relating to attendance at events and the associated travel would be published by 30th June each year, commencing with the period 2008/2009.

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The Head of Financial Services reported that there had been a delay in publishing the information for that period, due primarily to the introduction of a new database, the need for officers to verify information being held in respect of events which they had attended and a number of inaccuracies pertaining to the financial data being stored in relation to visits. She confirmed that these difficulties had now been addressed and circulated for the information of the Panel a document providing detailed information on employee travel for 2008/2009, which was due to be published on the Council's website.

She explained that discussions had taken place with the Council's Corporate Communications Unit and the Web Editor on the nature of information to be published and that it had been agreed that it should be categorised under the headings Employee Training and Development, Improving our Services, Promoting Belfast and Costs Recouped from Customers. In addition, information such as the officer's Department, job title and staff number, date and location of events, cost of travel, accommodation and subsistence should be provided.

The analysis of staff travel for the year 2008/09 and the comparison with previous years is outlined below:

Year	Cost*	Number of Visits	Number of Events
2005/2006	£312,942	1052	687
2006/2007	£299,381	971	645
2007/2008	£318,020	1081	695
2008/2009	£221,882	713	516

**the cost of travel does not include the fees associated with attendance at training courses, seminars, conferences, etc..*

In relation to staff travel for the period 2008/2009 generally she pointed out that the costs had been reduced by £96,138 (30.23%) from the previous year, whilst the number of visits and events had reduced by 368 and 179 respectively. Travel within Great Britain and the Republic of Ireland had accounted for 64.43% of the total, whilst visits to Europe represented 25.88% and the rest of the world was 9.69%. These figures compared to 73.87%, 17.08% and 9.05% respectively for the previous year.

After discussion, during which the Panel made a number of suggestions aimed at making the published information more user-friendly, the Panel noted the information which had been provided.

**Review of the Effectiveness
of the Audit Panel**

The Panel was reminded that, at its meeting on 15th June, it had been advised that the Local Government Auditor, who had audited recently aspects of the Council's management arrangements, including those for internal audit and the Audit Panel, had recommended that the Council undertake a self-assessment of the Panel based upon guidelines issued by the Chartered Institute of Public Finance and Accountancy. Accordingly, the Panel had agreed that the following persons be requested to complete a questionnaire:

- the Members of the Audit Panel, both Elected and external;
- the Director of Corporate Services;
- the Chief Local Government Auditor; and
- the Head of Audit, Governance and Risk Services.

The Head of Audit, Governance and Risk Services informed the Panel that five responses to the questionnaire had been received. He provided an overview of the comments contained therein and stated that, overall, the respondents had indicated that the Panel was addressing the majority of the requirements set out within the Chartered Institute of Public Finance and Accountancy Code of Practice for Audit Committees. He highlighted a number of improvements which had been suggested, particularly, in relation to the need to provide regular training for Panel members and to afford a higher priority to the Local Government Auditor's management letter. In relation to the suggestion that a more detailed assessment of the effectiveness of the Audit Panel should be undertaken, he confirmed that this would be included within the next independent review of Audit, Governance and Risk Services which was scheduled to take place in 2010.

The Panel noted the information which had been provided.

**Audit Governance and Risk Services
Progress Report**

The Panel considered a report regarding the work which Audit, Governance and Risk Services had undertaken between July and August.

The Head of Audit, Governance and Risk Services pointed out that, in accordance with the Panel's decision of 15th June, this report now included the length of time which assurance opinions had remained at a red level to enable it to monitor improvement more closely. In addition, this information would be provided to the Assurance Board.

He reported that, whilst no systems-based audit reviews had been finalised during the period in question, a report in relation to advisory/assurance work associated with the Tall Ships event had been finalised and submitted to the Tall Ships Assurance Board. He reported further that two significant investigations were being undertaken regarding a whistleblower's allegations and a reported income fraud, both of which had accounted for a substantial amount of staff time.

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The Panel noted the contents of the progress report regarding the work which had been undertaken by the Service between July and August and the comments thereon of the Head of Audit, Governance and Risk Services.

Update on Telephony/Mobile Phones

(Ms. R. Crozier, Head of Information Services Belfast, attended in connection with item.)

The Panel was reminded that, at its meeting on 15th June, it had requested that a report on the number of contracts with mobile telephone operators held by the various Council Departments be submitted to a future meeting.

The Head of Information Services Belfast informed the Panel that the request had arisen during consideration of the Head of Audit, Governance and Risk Services' Annual Assurance Report. The report had highlighted a number of issues to be addressed regarding the use of mobile telephones within the Council, particularly, the need to undertake a value-for-money review of existing contracts. She reported that, in November, 2008, the internal audit section had finalised a review on the use of mobile telephones, which had taken into account, amongst other things, policies and procedures in place at that time, budget/cost information and recommendations for realising efficiency savings. The audit had determined that:

- there had, in August, 2008, been 842 Council-issued mobile phones in operation;
- expenditure of £195,000 had been incurred on mobile telephones during 2007/2008;
- there had been no single point of contact/responsibility within the Council for the management of mobile telephony;
- there was a need to review corporate policy and procedures in respect of mobile phones and to improve the administration process;
- there were numerous accounts in place with three suppliers; and
- improvements to mobile telephony arrangements should be seen in the context of implementing other improvements and efficiencies in the wider telephony environment.

She informed the Panel that, following the audit, a group had been established in order to develop a policy for the use of mobile telephones and to rationalise the costs associated therewith. A draft policy was now in the final stages of being produced, which it was envisaged would be presented for approval to the Chief Officers' Management Team during September. She confirmed that a review of the business justification process for using mobile telephones would be undertaken following the implementation of the policy.

The Head of Information Services Belfast reported further that significant work had been undertaken recently to consolidate the billing process for BT landlines. She explained that, following discussions with BT, the Council had now moved to the BT One Bill method of payment, which would mean that the Central Transactions Unit would now receive a single invoice for payment by direct debt. She indicated that this would reduce significantly the administrative burden placed upon that Unit, as it would be required to process one invoice on a quarterly basis, rather than having to deal with several hundred on a monthly basis.

The move to the One Bill application would provide business managers with improved information in order to ensure the correct usage of all BT landlines and would help to identify those lines which may be surplus to requirements. She added that centralised billing would also provide an opportunity to ensure that the most cost effective tariffs were being applied and that Information Services Belfast was investigating with the Office of Government Commerce Buying Solutions the possibility of moving all landline and network leased lines to an Office of Government Commerce framework which could offer significant savings.

The same approach was being taken with Orange and Vodafone, the Council's primary mobile telephone operators, both of which would, in the near future, consolidate all accounts onto single bills for centralised payment. Information Services Belfast and the Procurement Unit were investigating options for establishing with the Office of Government Commerce Buying Solutions a single contract for mobile telephones. She confirmed that a report providing an update in relation to telephony would be submitted to the Panel's meeting on 9th November and that a further report highlighting compliance with the policy would be submitted early in 2010.

The Panel noted the information which had been provided.

**Director of Corporate Services –
Mr. Trevor Salmon**

The Director of Corporate Services reported that this would be the last meeting of the Panel which he would be attending, as he would be retiring from the Council in the near future.

The Panel thanked the Director for the valuable contribution which he had made over the years in managing the Council's finances and wished him every success in the future.

The Director thanked the Members for their best wishes and stated that he was appreciative of all their support and assistance during his career with the Council.

Chairman

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