

Fraud Control Framework – Dec 2011:

Introduction:

LPFA's Fraud Control Framework sets out the Authority's approach and commitment to fraud prevention and detection. LPFA recognises that its reputation for financial probity must be protected, and as part of that operation putting in place measures to tackle fraud and corruption is vital.

The framework is a summary of how LPFA approaches the management of fraud prevention, detection and reporting. Complete codes of practice, procedures and policies are available as full documents in their own right.

As a body financed by public monies LPFA must ensure that the framework of internal control limits exposure to fraud and corruption. The fraud control framework applies to everyone who comes into contact with LPFA including employees, employers, fund members, contractors and suppliers. It is the responsibility of all the above to be vigilant and assist LPFA in the area of fraud prevention.

This framework is divided into three sections and is an evolving policy statement:

Section 1) LPFA's general approach to internal controls and fraud prevention

Section 2) Specific fraud related codes and policies

Section 3) An annual action plan to LPFA officers

Definition of Fraud:

The Fraud Act 2006 introduces a statutory single offence of fraud which can be committed in three different ways by;

- False representation
- Failure to disclose information when there is a legal duty to do so
- Abuse of position

The existing offences such as theft, corruption, false accounting, forgery, counterfeiting and blackmail will continue to be offences under the relevant acts.

For practical purposes fraud can be defined as *"dishonest conduct with the intention to make gain, or cause a loss, or the risk of a loss, to another"*.

Computer fraud is covered by the Computer Misuse Act 1990. Such fraud arises where information technology equipment has been used to manipulate programs or data dishonestly (for example, by altering, substituting or destroying records, or creating spurious records), or where the use of an IT system was a material factor in the perpetration of fraud. Theft or fraudulent use of computer time and resources is included in this definition.

Definition of Bribery:

LPFA has put processes in place to ensure that staff are aware of the threat of bribery. Any act of bribery or failure to report bribery is not tolerated

The Bribery Act 2010 has defined bribery as:

“The giving or taking of a reward in return for acting dishonestly and/or in breach of the law”

Four offences are included under the Bribery Act 2010

- Bribing another person – **ACTIVE BRIBERY**

The offering, promising, or giving of a reward to induce a person to perform a relevant function or activity improperly

- Being bribed – **PASSIVE BRIBERY**

The accepting of, agreeing to accept or requesting of a reward in return for performing a relevant function or activity improperly.

- Bribing a foreign public official
- Failure to prevent bribery - This is the “corporate offence” where an organisation fails to stop people who are operating on its behalf from being involved in bribery.

This offence mainly applies to *commercial* organisations, however the main defence to failure to prevent bribery, and to stop active and passive bribery is for the organisation to demonstrate that it had adequate procedures in place to stop the bribery from occurring.

Employees of LPFA and any connected persons can report any concerns to their line manager, to the Director of Finance or to the Chairman of the Audit Committee. The Director of Finance will then either carry out the investigation himself or will determine the investigative officer.

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Audit Commission

Public Interest Disclosure Act and Whistleblowing Manager, 0845 052 2646

Section 1: LPFA's general approach to internal controls and fraud prevention

Responsibilities of the Executive:

The Executive is responsible for ensuring that a sound system of internal control is maintained, that business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for, used economically, efficiently and effectively.

The key elements of the internal control environment include:

- Procedures for setting objectives and monitoring their achievement
- Facilitation of policy making and decision making
- Ensuring compliance with established policies, procedures, laws and regulations
- Financial management of the authority and its reporting
- Performance management of the authority and the reporting of performance management
- Board led risk management strategy incorporating fraud management.

The system of financial management is based on a financial control framework, a financial handbook of procedures, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.

The financial management system includes:

- Comprehensive budgeting systems
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- Setting targets to measure financial performance
- Effective management of risk

LPFA cannot eliminate all attempts to perpetrate fraud. It can however ensure that there are effective strategies in place to reduce the risk of it occurring or to reduce the impact.

LPFA's risk strategy includes the following components:

- Risk identification – both at Board, team and project level
- Risk evaluation – to enable management to prioritise resources
- Risk control – steps taken to mitigate the effects of the risk
- Risk monitoring – an annual cycle of actions ensures regular review of risk.

Internal Audit, External Audit and the Audit Committee:

The Audit Committee reviews the internal (management) and external financial statements and reports to ensure they reflect best practice, discusses with the appointed external and internal auditor the nature and scope of each forthcoming audit and considers all reports. It also has ultimate responsibility for ensuring fraud control procedures are in place, receiving National Fraud Initiative figures and for encouraging action against perpetrators of fraud.

Financial control is the major component of an overall resource control framework. Financial control is concerned with the proper use of resources and starts with LPFA's objectives for its financial operations:

- to prevent and detect fraud, misuse and illegal transactions,

- to ensure the security of financial and physical assets,
The responsibility for providing controls lies with all levels of management. All combine to create a control environment ensuring the achievement of the system's objectives. Controls need to work together to reduce the risks and threats to the organisation.

- Organisational Controls - dealing with the way people are organised and structured such as the separation of functions, the quality and training of staff, the allocation of accountabilities and reporting lines, the provision of management and operational information, management reviews and monitoring, supervision and the checking of work.
- Authorisation Controls - with written policies and delegations controlling the authorisation of commitments and expenditure.
- Documentation Controls - the provision of controlled pre-numbered forms and standard documents being evidenced by authorised personnel.
- Completeness and Accuracy Controls - checking that all transactions have been included, for example through sequence checking, comparisons, control totals and re-performance routines.
- Physical Controls - protecting assets and information through restricted access and physical checks including the verification of changes to supplier details.

The following areas will be subject to internal audit reviews during 2010-11:

- Contributions
- Benefits
- Investments
- Core Financial Systems
- Risk Management in Practice
- IT

Responsibilities of all staff:

Every member of staff has a duty to ensure that public funds are safeguarded, whether they are involved with cash or payments systems, receipts, stocks or dealings with contractors or suppliers. Staff should alert their line manager where they believe the opportunity for fraud exists because of poor procedures or lack of effective oversight. In addition, it is the responsibility of every member of staff to report details immediately if they suspect that a fraud has been committed or see any suspicious acts or events.

Staff should also:

- Comply with established procedures, policies, delegations and codes of practice
- Participate in risk reviews and identify new risks
- Register any financial or non financial interests in any LPFA contractors under the Local Authority Code of Conduct for Officers. [This occurs annually with subsequent changes notified to HR.]
- Take steps to verify any changes to supplier details.

Section 2: Specific fraud related codes and policies

LPFA manages the detection and prevention of internal and external fraud through a variety of Codes of Practice and Standing Orders. All of them are available to staff as full documents in their own right and are Board approved.

Code of practice on Fraud: An internal document code of practice which sets out the procedure for reporting fraud and other financial irregularities and the necessary steps which will be taken as a result.

Code of practice on Whistleblowing and Irregularity: Also an internal document which aims to protect those who report financial irregularities outside the normal reporting lines. The code of practice has been sent to all contractors and is issued to staff on an annual basis. Whistleblowing avenues are advertised throughout LPFA's offices.

Local Authority Code of Conduct for Board Members: Board Members are requested to submit declarations of interest on an annual basis, and to alert LPFA of any changes in their interests. They are also required to express declarations during Board and Committee meetings and to withdraw from proceedings where necessary.

Local Authority Code of Conduct for Staff: Declarations of interest in contractors by staff are required on an annual basis to be reported to HR.

Contract Standing Orders: Minimum standards for financial controls that are in place for procurement across the Authority.

Local guidance on Gifts and Hospitality: Reported to Audit Committee on a quarterly basis. Hospitality received and declined is compared to LPFA's contracts register to ensure officers have not been encouraged into awarding contracts.

Each individual employee and member is responsible for observing these rules and codes. However there is a duty on the Authority to ensure all parties are aware of their responsibilities and to monitor compliance with them.

National Fraud Initiative (NFI):

NFI is the Audit Commission's biennial public sector data matching and fraud detection exercise which LPFA participates in every 2 years. The investigation covers:

- a) Pensioner death cases: This identifies where a pensioner has died but the person is still being paid.
- b) Deferred death cases: Where those with deferred benefits have died, but payment of a widow/dependant pension has not commenced.
- c) Pensioner re-employment cases: Identifies pensioners that have gone back into employment with the result that an abatement of pension may apply.

Declaration of Life Certificates are sent to pensioners living abroad and pension payments are subsequently suspended where necessary while an investigation for non-return of the certificate is carried out. Results of NFI are reported to Audit Committee.

LPFA also carries out monthly mortality screenings to reduce the likelihood of death overpayments and Impersonation of the Deceased fraud. Currently this service is run by Atmos Data Services.

Recourse and action on fraud detection:

NB: This section applies to employees, pension fund employers, fund managers, contractors and suppliers

LPFA has adopted a policy that means not only is the fraudulent action corrected but that any overpayment is recovered. In addition where it is suspected that a fraud has been committed the Authority will take appropriate action that can include police notification and prosecution through the Criminal Court.

If the fraud is linked to an LPFA employee then internal disciplinary action may also be taken in line with LPFA's disciplinary procedure

Where the Authority successfully prosecutes for fraud it will be publicised as a deterrent to others.

A fraudulent overpayment policy is in place which details the steps to be taken once a suspected fraud is identified.

What Happens When a Fraud is Established?

The decision whether to prosecute a fraudster takes into account the following factors:

- The personal circumstances of the offender
- Period of the offence
- The degree of fraud or amount of overpayment
- Was it a deliberate lie or a false declaration?
- Any evidence that LPFA has failed in its own responsibilities
- Did the Authority follow correct procedures or fail to act on information already held?
- Did the offender co-operate with the investigation?
- When confronted with the facts did the offender provide reasonable answers and explanations, or did they compound the fraud by making up excuses?
- Does the offender admit guilt and demonstrate remorse?

Learning from Experience and Minimisation of Losses

LPFA seeks to ensure that where it is a victim of fraud any loss is minimised and a review is carried out to ensure the act is not repeated. The review may be localised, or if serious enough involve internal or external audit.

The following steps should be taken:

- Investigate whether there are more cases of a similar nature.
- Investigation of all areas of activity of the person(s) implicated.
- Identify whether there was an absence or lapse of internal control and recommend improvements.
- Ensure that there are controls to either prevent or detect high value transaction frauds so that the Authority is not vulnerable to one-off high value frauds.

Section 3: An annual action plan to LPFA officers

This section of the framework is a user friendly guide intended for use by LPFA employees. It sets out an annual action plan which will maintain staff awareness of the seriousness of fraud, methods of reporting, and the consequences for breach of the Authority's codes of practice.

The action plan will be updated and communicated to staff on an annual basis and progress against the plan will be reported to Corporate Management Team.

Fraud Indicators – Staff and managers should be aware of the following indicators and warning signs of fraud:

- Staff under stress without a high workload
- Marked personality changes
- Always working late
- Reluctance to take leave
- Unexplained wealth or living beyond apparent means
- Sudden change of lifestyle
- Customer complaints of missing statements, unrecognised transactions
- New staff resigning quickly
- Cosy relationships with suppliers/contractors
- Suppliers/contractors who insist on dealing with one individual
- Changes in supplier details
- Rising costs with no explanation
- Key employees having too much control or authority without audit checks
- Employees with external business interests

Staff who regularly observe symptoms of fraud or fraudulent actions should contact the Director of Finance or any of the contacts on the whistleblowing posters.

Actions to be taken during 2010 – 11:

Actions fall into 3 categories:

- a) Communication of anti-fraud initiatives both internally and externally
- b) Engagement with LPFA staff
- c) Testing of internal controls.

Action	Deadline
Revised whistleblowing policy issued to all staff and posters updated.	Complete
Review legal advice in relation to fraudulent acts and powers of recovery.	Complete
Board register of interests: Captured on appointment and any changes are reported to Chairman of the Audit Committee. All Board members are issued with update forms in June along with a copy of local guidance on gifts and hospitality which requires all Members to notify LPFA within a month of any conflicting interest or material hospitality received.	Complete
Include LPFA's anti fraud initiatives in Spring Newsletter and Annual Report	Complete

Participate in Audit Commission's fraud survey "Protecting the public purse"	Complete
Staff register of interests in contractors: This information is captured on appointment but all staff will be asked to update the information annually	Complete
Corporate Management Team to confirm LPFA's fraudulent overpayment policy	Complete
Fraud awareness discussed at Staff Forum	Complete
Issue Fraud Control Framework 2010 to all staff and publish this on the intranet and internet.	Complete
Participation in the NFI programme – as per the NFI timetable	Complete
Director of Finance to implement revised structure for chasing death overpayments	Complete
Impact analysis of the Bribery Act 2010	Complete
LPFA's whistleblowing policy to be issued to all key suppliers and contractors	Complete
Remind staff of various codes of practice /standing orders relating to fraud which are contained on the intranet, including: Fraud Tenders and Contracts Officer Hospitality Officer Authorisations Execution of Documents Computer Usage Manual Disposal of equipment and any other fraud related Codes.	Topics will feature throughout the year via LPFA News - Complete
Training: All new staff will receive a corporate induction which will draw their attention to risk and fraud management at LPFA.	Quarterly – Complete
Alert staff when a tender situation is in progress so they can declare any interest at an early stage.	As and when necessary
Risk management training to all staff via the team meeting process. This incorporates fraud detection and awareness measures. Each team to receive an annual session.	Annually - Complete
Data Matching – pension database service which will search various statutory databases	Complete – Atmos selected

LPFA's planned internal audit reviews will run alongside this action plan and will be reported to Audit Committee.

Actions to be taken during 2011 – 12:

Actions fall into 3 categories:

- a) Communication of anti-fraud initiatives both internally and externally
- b) Engagement with LPFA staff
- c) Testing of internal controls.

Action	Deadline
Revised whistleblowing policy issued to all staff and posters updated.	Complete
Board register of interests and related party transactions: Captured on appointment and any changes are reported to Chairman of the Audit Committee.	Complete
All Board members to be issued with update conflict of interest forms along with a copy of local guidance on gifts and hospitality	Complete

which requires all Members to notify LPFA within a month of any conflicting interest or material hospitality received.	
Participate in Audit Commission's fraud survey "Protecting the public purse"	Complete
Issue Fraud Control Framework 2011 to all staff and publish this on the intranet and internet.	31st October 2011
Staff register of interests in contractors: This information is captured on appointment but all staff will be asked to update the information annually	31st December 2011
Review processes around change to supplier details	31st January 2011
Audit survey on staff awareness of fraud procedures	30th June 2012
Fraud awareness and survey results discussed at Staff Forum	31st July 2012
Internal audit on compliance with anti bribery procedures	30th June 2012
Remind staff of various codes of practice /standing orders relating to fraud which are contained on the intranet, including: Fraud Tenders and Contracts Officer Hospitality Officer Authorisations Execution of Documents Computer Usage Manual Disposal of equipment and any other fraud related Codes.	Topics will feature throughout the year via LPFA News
Training: All new staff will receive a corporate induction which will draw their attention to risk and fraud management at LPFA.	Quarterly
Alert staff when a tender situation is in progress so they can declare any interest at an early stage.	As and when necessary
Risk management training to all staff via the team meeting process. This incorporates fraud detection and awareness measures. Each team to receive an annual session.	Annually