

## Corporate Committee 24 January 2019

**Report title:** Internal Audit Strategy and Charter for 2019/20; counter fraud and corruption policies and procedures

**Wards:** All

**Portfolio:** Cabinet Member for Finance: Councillor Andrew Wilson

**Report Authorised by:** Christina Thompson: Acting Strategic Director for Corporate Resources

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### Report summary

The attached report explains the strategic approach for Internal Audit that will be adopted to continue to provide effective assurance on the risks facing the Council and the strategic approach to tackling fraud against the Council for the coming year. An ongoing focus for 2019/20 will be the ways in which we can assist management to meet the new challenges they face through developing our approach to combined assurance, to redesign controls that ensure key risks are managed with reduced resources and by providing appropriate challenge, support and assurance to key programmes and projects which are enabling transformation and efficiencies.

The remit and work of the Internal Audit and Counter Fraud Service is documented in the Internal Audit and Counter Fraud Charter. The Charter is subject to an annual review by the Committee and a draft for 2019/20 is presented for approval by Members. The Charter is compiled in accordance with the Public Sector Internal Audit Standards and the CIPFA Code of Practice for Managing the Risk of Fraud and Corruption.

The Council's strategic approach to countering fraud and corruption is underpinned by a range of policies and procedures, setting out ways in which concerns can be raised, investigated and reported and appropriate action taken. This report provides members with the following updated policies for approval by Corporate Committee: the Counter Fraud Policy, Fraud Response Plan, Anti-Bribery Policy, Whistleblowing Charter, Whistleblowing Policy and Procedure and Money Laundering Policy and Practice Note.

### Finance summary

This report does not give rise to any additional capital or revenue financial implications. Actions to communicate the policies and to ensure compliance will be undertaken within the existing budgets.

## Recommendations

That the Corporate Committee:

1. Consider and agree to the Internal Audit strategic approach for 2019/20 (Appendix A).
2. Consider and approve the draft Internal Audit and Counter Fraud Charter for 2019/20 (Appendix B).
3. Consider and approve the updated policies:
  - Counter Fraud Policy (Appendix C);
  - Fraud Response Plan (Appendix D);
  - Anti-Bribery Policy (Appendix E);
  - Whistleblowing Charter (Appendix F);
  - Whistleblowing Policy and Procedure (Appendix G); and,
  - Money Laundering Policy and Practice Note (Appendix H).
4. Receive reports at future meetings on the application of the policies in respect of referrals received, investigations undertaken into potential breaches of the policies and procedures and management actions following the conclusion of investigations.

## 1. CONTEXT

- 1.1 The Corporate Committee performs the 'Audit Committee' role at Lambeth. This includes considering and agreeing the Internal Audit and Counter Fraud Strategy and Charter and counter fraud policies on an annual basis.

## 2. PROPOSAL AND REASONS

2.1 The report provides Members with:

- The Internal Audit Strategy for 2019/20 for consideration, which will be used to develop the Internal Audit Work Plan for 2019/20 for presentation to the Committee in March 2019;
- The draft Internal Audit and Counter Fraud Charter 2019/20 for consideration and approval; and,
- Revisions to the Council's counter fraud and corruption policies which are proposed to the Committee for approval following the annual review of all such policies by officers.

A summary of the items attached as appendices is included below, including an outline of any key changes to the documents from the previous year:

### 2.2 Summary of key changes to documents in appendices:

- A. Internal Audit Strategy (IAS) 2019/20** – the content of the IAS is broadly the same as the previous year but objectives supporting the internal audit mission have been refreshed.
- B. Internal Audit and Counter Fraud (IACF) Charter for 2019/20** – the content of the IACF Charter is largely the same as the previous year.
- C. Counter Fraud Policy** – there have been no significant changes to this policy other than ensuring references to officers are up to date.
- D. Fraud Response Plan** – there have been no significant changes to this policy other than ensuring references to officers are up to date.
- E. Anti-Bribery Policy** – there have been no significant changes to this policy other than ensuring references to officers are up to date.
- F. Whistleblowing Charter** – there have been no significant changes to this policy other than ensuring references to officers are up to date.
- G. Whistleblowing Policy and Procedure** – there have been no significant changes to this policy other than ensuring references to officers are up to date.
- H. Money Laundering Policy and Practice Note** – this has been updated to ensure references to earlier regulations are correct and there are links to new guidance.

We have summarised the content of each policy below.

### 2.3 Internal Audit Strategy 2019/20 (Appendix A)

2.3.1 The Internal Audit function will:

- Provide the Section 151 Officer and Corporate Committee with an overall annual opinion on the Council's governance, risk and control arrangements, which also supports the Annual Governance Statement.
- Review the Council's governance, risk management and control processes through a risk-based annual work plan which is aligned to the Council's objectives, giving assurance on the Council's wider risk profile, not just financial controls, and on key emerging risks.
- Support the organisation through changes in structure, culture and operating model.
- Demonstrate the value of audit by working proactively with those responsible for transformation and efficiency activities, to avoid duplication of audit and assurance effort and provide

assurance across governance arrangements.

- Drive improvement in risk management, controls and governance by making effective recommendations to management arising from our work and monitoring and reporting on implementation.
- Assist management to optimise the control environment through a better understanding of risks which potentially enables fewer but better controls to be put in place.
- Co-operate effectively with external auditors and other review bodies functioning in the council.
- Use technology to improve the efficiency of audit testing –using data analytics and continuous audit methodologies – to foster greater compliance with policies and procedures.
- Improve governance through strengthening of the challenge role of Corporate Committee, promoting appropriate compliance and ethical behaviours, and extending assurance arrangements to partnerships.

2.3.2 The strategic approach set out above will be underpinned by the Internal Audit Strategy which is set out in Appendix A and is aligned with internal audit best practice.

#### 2.4 Internal Audit and Counter Fraud (IACF) Charter 2019/20 (Appendix B)

2.5.1 The IACF Charter sets out the purpose, objectives and scope of the activities of the Internal Audit and Counter Fraud Service and has been developed to take account of the following requirements, which have previously been reported to the Corporate Committee:

- The Public Sector Internal Audit Standards, which came into effect on 1 April 2013;
- The governance requirements set out in CIPFA Statement on the Role of the Head of Internal Audit in Local Government (December 2010), reported to the Committee on 29 June 2011;
- The assessment against the CIPFA Toolkit for Local Authority Audit Committees Checklist, reported to the Committee on 27 September 2012; and,
- The CIPFA Code of Practice for Managing the Risk of Fraud and Corruption that was published in October 2014.

2.5.2 The draft IACF Charter 2019/20 (Appendix B) has been compiled to ensure compliance with the Public Sector Internal Audit Standards (PSIAS), which came into force on 1 April 2013. In summary, the PSIAS, which were agreed by a range of bodies including IIA and CIPFA, place the following requirements on public sector organisations' internal audit arrangements:

- (i) *Compliance with the IIA Code of Ethics* (and those of other professional bodies of which an auditor is a member, e.g. CIPFA). The IIA Code of Ethics sets out key principles and rules of conduct covering the following: Integrity; Objectivity; Confidentiality; and, Competency.
- (ii) *Purpose, authority and responsibility* of the internal audit activity must be formally defined in an internal audit charter which should:
  - define the terms “board” and “senior management” for the purposes of internal audit activity;
  - cover arrangements for appropriate resourcing;
  - define the role of internal audit in any fraud-related work; and,
  - include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
- (iii) *Independence and objectivity*: the Chief Internal Auditor (Head of Internal Audit and Counter Fraud) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The Chief Internal Auditor must report functionally to the board. In practice this means that Corporate Committee (as the Board) will be involved in:

- approving the internal audit charter;
  - approving the risk based internal audit plan; and,
  - making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.
- (iv) *Proficiency and due professional care:* audit engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge skills and other competencies needed to perform their individual responsibilities. The Chief Internal Auditor must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.
- (v) *Quality assurance and improvement programme:* the Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This must include both internal and external assessments. An external assessment should be conducted at least once every five years and progress against any improvement plans, agreed following external assessment, must be reported to senior management and to Corporate Committee.

## 2.6. Counter fraud and corruption policies and procedures (Appendices C – H)

2.6.1 It is important that the Council has policies and procedures in place that are fit for purpose and are effective in preventing, detecting and investigating fraud where it occurs. Staff, agency workers and Members need to be made aware of, be able to understand and comply with the policies and procedures which comprise the Council's counter fraud framework. Staff agency workers, Members and citizens must have confidence in the reporting arrangements and subsequent investigation of concerns which can be reported via the various channels available.

2.6.2 The review of the counter fraud policies and procedures was identified as being a key aspect of the governance requirements for audit committees as set out by CIPFA in their publication on the Role of the Head of Internal Audit.

2.6.3 A review of the existing counter fraud policies has been undertaken, with revised policies being presented to the Corporate Committee for approval. In the main, only minor changes were required, including reflecting changes in the Council's officer structure and responsibilities. All of the updated policies are presented in the appendices to this report for approval and are summarised as:

## 2.7. Counter Fraud Policy

2.7.1 The Counter Fraud Policy (Appendix C) confirms that the Council is an ethical organisation in which a corporate culture exists which is clearly understood by all employees, Members, suppliers and contractors that there is a zero tolerance of fraud. This means that all incidents of fraud are to be reported and will be investigated in accordance with established investigation procedures. Where fraud is proven, the Council is committed to pursuing all available sanctions and recovering assets obtained through fraud.

The Counter Fraud Policy sets out the Council's commitment to:

- **Deterring fraud** by publicising the outcome of proven fraud cases and sanctions achieved;
- **Preventing fraud** to protect vital services to its residents and the local community;
- **Investigating and detecting fraud** where concerns are raised, including referral to the police in the most serious of fraud cases;
- **Pursuing all available sanctions** where fraud is proven;
- **Recovering losses** resulting from fraud, including using our financial investigator, in appropriate cases, to recover losses through proceeds of crime legislation and civil

proceedings. This will involve applying for unlawful profit orders from the courts to recover profits made by council tenants who have sublet their property.

- **Joint working** and liaison with other organisations to investigate fraud and recover losses, including assisting the DWP Single Fraud investigation Service who carry out housing benefit investigations.

## **2.8. The Fraud Response Plan**

2.8.1. The Fraud Response Plan (Appendix D) supports the Counter Fraud Policy and is made available to all members, staff, agency workers and contractors. The Fraud Response Plan includes details of all the channels available for concerns to be reported and the actions that the Council will take in dealing with allegations and cases where fraud is proven.

## **2.9. The Anti-Bribery Policy**

2.9.1. The Anti-Bribery Policy (Appendix E) – sets out how the Council meets the requirements of the Bribery Act 2010 to have adequate arrangements in place to prevent and detect instances of bribery and corruption.

## **2.10. The Whistleblowing Charter and Whistleblowing Policy and Procedure**

2.10.1. The Whistleblowing Charter (Appendix F) and Whistleblowing Policy and Procedure (Appendix G) are consistent with previous years and outline the Council's whistleblowing arrangements.

## **2.11. The Anti-Money Laundering Policy**

2.11.1 The Anti-Money Laundering Policy (Appendix H) sets out the actions officers who deal with transactions where the potential for money laundering exists.

2.12. Following the approval of the policies by the Committee, the revised documents will be communicated to all staff, agency workers and Members. In addition, officers from Internal Audit and Counter Fraud work with colleagues in the Corporate Learning and Development team to develop e-learning material and officers will be reminded to refresh their awareness when the updated policies are communicated.

2.13. Member and employee awareness of the policies and procedures will be raised via articles on the Council's intranet. All Members and employees will be encouraged through a number of channels to complete the awareness training. Publicity will also include the channels available for reporting concerns relating to fraud, malpractice and money laundering. Contractors and agents will be made aware of the Council's policies through the relevant procurement and contractual documentation.

## **3. FINANCE**

3.1 This report does not give rise to any additional capital or revenue financial implications. Actions to communicate the policies and to ensure compliance will be undertaken within the existing budgets.

## **4. LEGAL AND DEMOCRACY**

4.1 Regulation 3 of the Accounts and Audit Regulations 2015 sets out the Council's responsibility for ensuring that it has a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

- 4.2 Regulation 5 requires the Council to ensure that it undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 4.3 The Bribery Act 2010 created a new criminal corporate offence of failing to prevent bribery by a person associated with it, which includes employees, agents and intermediaries. In order to establish a defence to such a charge, an organisation would need to be able to demonstrate it has adequate anti-bribery procedures in place. The Ministry of Justice have published guidance on "adequate procedures" under the Act, which is aimed at assisting commercial organisations to understand what constitutes "adequate procedures". The guidance indicates that "adequate procedures" should be built around 6 principles: proportionality; top level commitment to bribery prevention; risk assessment; due diligence; communication; and, monitoring and review.
- 4.4 Under section 47B of the Employment Rights Act 1996 ("ERA"), a worker has the right not to be subjected to any detriment by his employer on the ground that the worker has made a protected disclosure as defined in section 43A of the ERA.
- 4.5 A protected disclosure means any disclosure which, in the reasonable belief of the worker making the disclosure, tends to show one or more of the following:
  - (a) That a criminal offence has been committed is being committed or is likely to be committed,
  - (b) That a person has failed is failing or is likely to fail to comply with any legal obligation to which he/she is subject,
  - (c) That a miscarriage of justice has occurred is occurring or is likely to occur,
  - (d) That the health or safety of any individual has been, is being or is likely to be endangered,
  - (e) That the environment has been, is being or if likely to be damaged, or
  - (f) That information tending to show any matter falling within any of the preceding paragraphs has been, or is likely to be deliberately concealed.
- 4.6 In order to be protected under the provisions of section 47B ERA, the disclosure must be in the public interest and an award of compensation can be reduced if the disclosure is not made in good faith.
- 4.7 The Proceeds of Crime Act 2002 (POCA 2002) and the Terrorism Act 2000 (TA 2000), together with the Money Laundering Regulations 2007 (MLR 2007) place obligations on the Council and its employees to establish internal procedures to prevent the use of services for money laundering.
- 4.8 The use of covert surveillance techniques potentially engages Article 6 (the Right to a Fair Trial) and Article 8 (the Right to Privacy) of the European Convention of Human Rights. Covert Surveillance authorised in accordance with RIPA renders lawful what might otherwise constitute a breach of the said Articles (and therefore the Human Rights Act 1998) and in this way protects the Council from any civil liability that might arise and helps ensure that the evidence secured in this way is admissible in any ensuing proceedings.
- 4.9 There were no additional comments from Democratic Services.

## **5. CONSULTATION AND CO-PRODUCTION**

- 5.1 Lambeth officers and Members were consulted during the drafting of the Internal Audit and Counter Fraud policies and the drafting of this report.

## **6. RISK MANAGEMENT**

- 6.1 Failure to deliver the Internal Audit and Counter Fraud Service in line with statutory and professional requirements could result in the overall audit opinion not being sufficiently complete or robust and in fraud not being tackled effectively.
- 6.2 Reduced internal audit coverage may affect the assurance assessments of the robustness of risk, control and governance processes in the context of the greater and higher risks facing the council from reduced budgets and scarcity of resources, as well as the ongoing risk of fraud. The work plans must ensure that there is sufficient focus on the key risk areas facing the council.
- 6.3 Fraud and corruption risks considered as part of the Council's risk management arrangements. Implementing programmes and controls to prevent, deter and detect fraudulent and related activity will mitigate the council's exposure to fraud risks and minimise losses.

## **7. EQUALITIES IMPACT ASSESSMENT**

- 7.1 Not applicable.

## **8. COMMUNITY SAFETY**

- 8.1 Not applicable.

## **9. ORGANISATIONAL IMPLICATIONS**

### **9.1 Environmental**

None.

### **9.2 Staffing and accommodation**

None.

### **9.3 Procurement**

None.

### **9.4 Health**

None.

## **10. TIMETABLE FOR IMPLEMENTATION**

- 10.1 Not applicable.

<b>Audit trail</b>				
<b>Consultation</b>				
<b>Name/Position</b>	<b>Lambeth directorate/ division or partner</b>	<b>Date Sent</b>	<b>Date Received</b>	<b>Comments in para:</b>
Councillor Andrew Wilson	Cabinet Member for Finance	03.01.19	03.01.19	
Christina Thompson, Acting Strategic Director for Corporate Resources	Corporate Resources	03.01.19	04.01.19	
Alison McKane, Director of Legal Services and HR	Corporate Resources	03.01.19	09.01.19	
David Rose, Democratic Services	Corporate Resources	03.01.19	15.01.19	
Finance Clearance	Corporate Resources	03.01.19	04.01.19	

<b>Report history</b>	
<b>Original discussion with Cabinet Member</b>	N/A
<b>Report deadline</b>	11.01.19
<b>Date final report sent</b>	16.01.19
<b>Part II Exempt from Disclosure/confidential accompanying report?</b>	No
<b>Key decision report</b>	No
<b>Date first appeared on forward plan</b>	N/A
<b>Key decision reasons</b>	N/A
<b>Background information</b>	<a href="#"><u>Internal Audit Strategy, approved on 23 January 2018</u></a> <b>Internal Audit Work Plan 2018/19</b> , approved on 21 March 2018 <b>Counter Fraud Work Plan 2018/19</b> , approved on 21 March 20178
<b>Appendices</b>	<b>A.</b> Internal Audit Strategy 2019/20 <b>B.</b> Internal Audit and Counter Fraud Charter for 2019/20 <b>C.</b> Counter Fraud Policy <b>D.</b> Fraud Response Plan <b>E.</b> Anti-Bribery Policy <b>F.</b> Whistleblowing Charter <b>G.</b> Whistleblowing Policy and Procedure <b>H.</b> Money Laundering Policy and Practice Note