



## **GOVERNANCE AND AUDIT COMMITTEE - 8<sup>TH</sup> OCTOBER 2024**

**SUBJECT: FRAUD RISK ASSESSMENT**

**REPORT BY: ACTING INTERNAL AUDIT MANAGER**

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### **1. PURPOSE OF REPORT**

- 1.1 To inform the Governance and Audit Committee of the Fraud Risk Assessment methodology that has been adopted by the Internal Audit Team.
- 1.2 To report the findings of the Fraud Risk Assessment and to present the initial Fraud Risk Register that has been produced following the risk assessment process.

### **2. SUMMARY**

- 2.1 Audit Wales has recently undertaken a review of Counter-Fraud Arrangements in Caerphilly CBC, and their report is included separately on the agenda for today's meeting. One of the recommendations in the Audit Wales report is that the Council should ensure that the risk of fraud is properly assessed.
- 2.2 A member of staff in the Internal Audit Team has recently commenced a Chartered Institute of Public Finance and Accountancy (CIPFA) accredited fraud qualification. As part of this training the staff member has completed modules covering the CIPFA Fraud Risk Assessment methodology. Following this training a risk assessment has been undertaken and an initial Fraud Risk Register has been produced (Appendix 1).
- 2.3 It is intended that this initial risk register, its findings and methodology will be embedded into individual Directorate Management Team processes, and it will also help to inform the annual Internal Audit Plan. It is also intended that an update report will be presented to the Governance and Audit Committee on a six-monthly basis.

### **3. RECOMMENDATIONS**

- 3.1 The Governance and Audit Committee is asked: -
  - 3.1.1 To note the methodology that has been adopted to undertake the Fraud Risk Assessment.
  - 3.1.2 To review and comment upon the initial Fraud Risk Register.
  - 3.1.3 To note that six-monthly updates will be provided for the Committee.

### **4. REASONS FOR THE RECOMMENDATIONS**

- 4.1 To ensure that the Authority is continually reviewing and improving its counter-fraud arrangements.
- 4.2 To ensure that the Governance and Audit Committee is provided with assurance that appropriate arrangements are in place and that they are operating effectively.

### **5. THE REPORT**

- 5.1 Fraud is considered a significant risk to the public sector and various estimates have been made as to the total loss to the public purse. However, it is clear that financial losses due to fraud diverts funds from essential services and may also result in reputational damage and loss of confidence.
- 5.2 Audit Wales has recently undertaken a review of Counter-Fraud Arrangements in Caerphilly CBC and one of the recommendations in their report is that the Council should ensure that the risk of fraud is properly assessed.
- 5.3 A Fraud Risk Assessment has been undertaken using the methodology recommended by CIPFA. This is considered to be in line with best practice, and we have also benchmarked our processes to other Local Authorities to ensure that we are being consistent and have identified all risks.
- 5.4 The Fraud Risk Register identifies fraud risks, and these are allocated to service area leads as appropriate. The Risk Register also identifies root causes and the potential consequences of the uncontrolled risk. A scoring matrix assessing the likelihood and impact of the inherent risk is used to give an overall risk score.
- 5.5 The scoring matrix is shown overleaf: -

## Risk Scoring Matrix

0-5 = Low risk	Severity of potential damage / loss				
	6-10 = Moderate Risk	11-15 = High Risk	16-25 = Extremely High Unacceptable Risk		
	Insignificant: loss under £5k, no media interest	Minor: loss over £5k, some public interest	Moderate: loss over £20k, widespread interest, but limited parties	Major: loss over £100k, local news, large number of parties interested	Catastrophic: loss over £1m, national media interest
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Almost certain <b>5</b>	5	10	15	20	25
Will probably occur <b>4</b>	4	8	12	16	20
Possibly occur <b>3</b>	3	6	9	12	15
Remote possibility <b>2</b>	2	4	6	8	10
Extremely unlikely <b>1</b>	1	2	3	4	5

- 5.6 A number of control / mitigation processes including management controls and other processes have been considered for each of the identified risks, and the residual risk remaining following these mitigations is reflected in the Risk Register.
- 5.7 Fraud risk identification is essential to understand the specific exposures to different types of risk and changing patterns of threat and consequences. The risk assessment is designed to identify those areas with the greatest potential for the risk of fraud.
- 5.8 It is clear that this is an organic work in progress that will develop further as other anti-fraud measures and policies and processes are embedded into the organisation.

- 5.9 The Fraud Risk Register will need to be a live document that is reviewed and updated regularly. There will be engagement at all levels in the organisation to ensure that potential risks and the mitigations are fully understood, and it will also be important to identify emerging risks and capture these in the Risk Register.
- 5.10 To ensure that the Governance and Audit Committee is provided with assurance that appropriate arrangements are in place and that they are operating effectively, it is proposed that a six-monthly update report will be provided for the Committee.

### **Conclusion**

- 5.11 The Fraud Risk Assessment has identified the key areas of potential fraud and the mitigations to reduce the risk of fraud.
- 5.12 The Fraud Risk Register will be reviewed and updated regularly, and a six-monthly report will be presented to the Governance and Audit Committee.

## **6. ASSUMPTIONS**

- 6.1 There are no assumptions in this report.

## **7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT**

- 7.1 An integrated Impact Assessment is not required for this report.

## **8. FINANCIAL IMPLICATIONS**

- 8.1 Any financial loss due to fraud diverts funds from essential services and may also result in reputational damage and loss of confidence.
- 8.2 The Fraud Risk Assessment identifies the key areas of potential fraud, and the Fraud Risk Register outlines the mitigations required to reduce the risk of financial losses arising from fraud.

## **9. PERSONNEL IMPLICATIONS**

- 9.1 There are no direct personnel implications arising from this report.

## **10. CONSULTATIONS**

- 10.1 All comments have been reflected in this report.

## 11. STATUTORY POWER

### 11.1 Local Government and Elections Act (Wales) 2021

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Appendices:

Appendix 1 – Caerphilly CBC Fraud Risk Register