



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013

AGENDA ITEM NO. ?

MITIGATION OF THE RISK OF FRAUD

REPORT OF THE DIRECTOR

Purpose of Report

1. The purpose of this report is to outline ESPO's management of the mitigation of the risk of fraud.

Background

2. At its meeting on 18 February 2013, the Subcommittee requested that officers report further on ESPO's procedures for the mitigation of the risk of fraud.

Mitigation of the Risk of Fraud

3. ESPO adopts the LCC Anti-Fraud and Corruption Policy, strategy and procedures.
4. The risk of fraud is inherent in all businesses, particularly where there is extensive procurement and supplier and customer relationships, as exist at ESPO.
5. In recognising this risk there are a number of first and second tier controls in place to mitigate and highlight where potential risks exist as set out below:

First Tier Controls

6. Segregation of duties in the creation of contract arrangements. Key features of this include the requirement for business cases for review and approval by senior management, followed by pre-and post-procurement panels. In the case of energy purchase for example an independent body, the Energy Governance Panel, provides parameters within which to forward-buy sizeable energy tranches and the internal review of that purchase by the Director in the weekly Energy Portfolio record.
7. Review of management information to ensure that rebate income is consistent with framework activity.
8. Trend analysis over time to highlight any deviations from the norm.

9. Maintenance of a Register of Gifts and Hospitality which records all invitations/offers of gifts and the process followed in each case.
10. Thorough vetting of CV's.

Second Tier Controls

11. Operation of internal and external audits, including spot checks.
12. Perpetual inventory stock control to mitigate potential loss of stock.
13. Appropriate scrutiny of any significant financial transactions.
14. None of the primary nor secondary tiers have highlighted the existence of any fraud at ESPO

Training and Awareness

15. ESPO recognises that the success of the Anti-Fraud and Corruption Policy will depend on the training of new and existing employees and the continuing awareness of staff throughout ESPO. To raise awareness, this policy will form part of the induction process for new employees, and managers are responsible for disseminating the policy and promoting fraud and bribery awareness.
16. There are some typical warning signs and alerts that may indicate that fraud or bribery may be taking place. These include:
 - Non-separation of duties
 - Remote locations lacking supervision Untidy or immaculate record keeping
 - High incidence of error
 - Individuals who appear to live beyond their means
 - Individuals who have a very close relationship with suppliers
 - An individual who is generally dismissive of rules
17. Comprehensive training will be given to those individuals who are directly responsible for investigating fraud and corruption cases to ensure a consistent and objective approach is always maintained.

Maintaining and Reviewing Fraud and Corruption Protection Arrangements

18. The arrangements will be assessed on an ongoing basis whether the policies and procedures in relation to fraud and bribery are

adequate to manage effectively the risks faced by the organisation and whether they are being effectively implemented.

19. The Anti-Fraud and Corruption Policy and any other associated policies and procedures will be reviewed following any changes to the nature and scale of activities or external stimuli, eg government changes in countries we deal with etc, to ensure the ongoing suitability of the policy.
20. Where fraud or bribery has occurred a full review of all relating policies, procedures and controls will take place to identify if a breakdown in controls was responsible for the incident or whether further controls need to be introduced to minimise the risk of re-occurrence.

Resources Implications

21. None.

Recommendation

22. Members are asked to note the contents of the report.

Equal Opportunities Implications

23. None

Risk Assessment

24. None required.

Background Papers

25. None.

Officer to Contact

John Doherty, Director
j.doherty@espo.org 0116 2657931

Appendices

None

This page is intentionally left blank