

LOCAL AUTHORITY SERIOUS ORGANISED CRIME INTERNAL AUDIT

A framework for Internal Audit and Finance Managers

THE THREAT

Local Authority (LA) procurement is at risk of infiltration from serious and organised crime and organised crime groups could be benefitting from public sector contracts. In 2013 it was estimated that £2.1 billion of fraud was perpetrated against local government ([National Fraud Authority Annual Fraud Indicator 2013](#)).

Serious and organised crime is a threat to our national security and the Government's [Serious and Organised Crime Strategy](#) published in 2013 reported that it **costs the UK more than £24 billion a year**. Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime.

RESPONDING TO THE THREAT

Conducting a Serious and Organised Crime Audit into areas most vulnerable / attractive to serious and organised crime can help to identify where LAs are most at risk and to assess where changes and improvements can be implemented to shut down opportunities for serious and organised crime involvement and reduce financial losses.

HOW TO USE THIS AUDIT AND AUDIT SCOPE

The Serious and Organised Crime Audit is a methodology that allows LA Internal Audit teams to scrutinise business operations to establish where there may be vulnerabilities to serious and organised crime.

We recommend initially working with police to identify areas most vulnerable within your LA and then for Internal Audit to carry out an audit based on the process set out below. 'Potential Areas for Serious and Organised Crime Audit' (Annex 1) lists typical LA work areas and those highlighted in bold are areas potentially at greater risk (based on Police Scotland's business exploitation list and Home Office Organised Crime Procurement Pilots) though these may vary from LA to LA.

Suggested questions that could form the basis of an audit are captured in the section entitled 'Audit Questions' found later in this document and you may also want to develop your own. However, the overarching questions you will want to consider are:-

- Is there a lack of awareness of serious and organised crime risks that can lead to actual or potential harm to the LA or the community which it serves? How can awareness be improved?
- Are there appropriate links with law enforcement bodies, other relevant partners and internally to ensure opportunities are not missed to act upon intelligence and to take robust steps early on to address actual or potential serious and organised crime risks? Can multi-agency partnerships be used more or to better effect?
- Are serious and organised crime risks considered in key, high risk dealings and transactions, including procurement, to safeguard against financial or reputational loss? Are appropriate money laundering mechanisms in place? Are licencing procedures robust, clear and consistently followed?
- Are serious and organised crime risks considered as part of the recruitment and employment process, to avoid the potential for insider threat or corruption?

AUDIT PROCESS

STEP 1 – Agree scope

The auditor to meet with local police (and/or multi-agency partnership members) to map vulnerable areas within LA business. The auditor should also meet with the Chief Executive and heads of Finance, Procurement, Fraud, HR etc. to assess and agree audit areas, processes and strategies to be audited (see Annex 2 for suggested policies and processes).

STEP 2 – Audit questions

In the next section there are suggested audit questions to guide examination of business areas you are likely to want to audit (though each LA will have different priorities and you may have your own questions). The auditor should discuss the questions with the relevant leads for each work area being audited, in order to develop a picture of risks and weaknesses in current processes.

STEP 3 – Deep dives

Carrying out deep dive (or dip sampling) investigations into key current processes to check that they are fit for purpose and being followed. Having a process in place is not enough if it is not regularly reviewed and not routinely followed.) Annex 2 sets out key plans, policies and procedures that should be in place in most LAs.

STEP 3 – Take action

Use the responses to the questions and the outcomes of any deep dive investigations to reassess the risks and weaknesses in each area. Consider how the audit report can be used to recommend improvements and whether partners (police and other) should be involved to support strengthening of LA measures, for example, information sharing and targeted checks.

AUDIT QUESTIONS

1. Strategic and Corporate teams

Raising awareness of serious and organised crime

- Are staff and senior managers within the LA aware of the Government's [Serious and Organised Crime Strategy](#) published in 2013, the Local Government Association's [Tackling Serious and Organised Crime – A Local Response](#) and the [Fighting Fraud and Corruption Locally Strategy](#) – the new counter fraud and corruption strategy for local government published in March 2016?
- What changes, if any, have been made within the LA in response to these strategies? Is response to the risks of serious and organised crime included in corporate and strategic plans and policies (including the whistleblowing policy)?
- Have these plans been recently reviewed? Are they being followed? Is a deep dive needed to check?
- Are staff aware of the seven 'Nolan' principles of standards in public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership and are arrangements in place for investigating allegations that these are not being complied with?

Risk Management

- Do you have a fraud risk register? How often is it reviewed by the LA audit and risk committee?
- Does the fraud risk or wider risk register include serious and organised crime considerations? Are mitigating actions being carried out and is the impact of these actions being managed and monitored?
- Have you assessed the risk to the LA from cybercrime and taken measures to protect LA systems from it?

Involvement with local multi-agency partnerships

- Are you part of a multi-agency partnership or other local partnership aimed at working with police and other agencies to tackle the threat of serious and organised crime? If not, are there reasons that one does not exist locally?
- Does the LA send an appropriate representative to the local partnership meetings and how often are these held / does the LA representative attend?
- Is output shared appropriately within the LA and are actions owned / acted upon?

Sharing information and intelligence with the police, other law enforcement and neighbouring Local Authorities

Appendix 3

- How do you share information with the local police and other enforcement agencies? Are formal processes in place and is there an Information Sharing Protocol? If so has this been reviewed? Is it being regularly used?
- What information do you share with the police and what information do the police share with you? Is there more information the police hold that might be useful and vice versa?
- Do you routinely share information with neighbouring LAs? How do you do this? What information do you share?
- What processes are in place to ensure key information is shared internally (for instance between the licensing Authority and Children's Services)? Are these processes followed?

2. Procurement

(Especially for potentially 'at risk' sectors such as taxis, waste, housing, construction and security)

- When did you last review your procurement processes? Are processes being properly followed? Would a deep dive of a recent procurement help provide assurance?
- What information are those tendering for LA contracts required to submit? (e.g. details of convictions / company owners etc.) In what stage of the tender is this information requested?
- How is the accuracy of information provided in tender documentation confirmed? Is there a process for this? Is it routinely followed?
- Are checks on suppliers (and subcontractors) carried out at the procurement stage and during the life of larger contracts?
- Do contracts allow for supplier audits including unannounced visits?
- Is there any information sharing with local police prior to awarding contracts (i.e. at the tender evaluation stage)?
- How does the procurement process protect procurement staff from getting undue pressure applied to them? Is there adequate segregation of duties?
- Do you have any additional measures in place for procurements of services for vulnerable adults / children – vetting checks for instance for social housing providers or home to school taxi contracts?

3. HR

(see [CPNI advice](#) for more information on insider threat)

Vetting Checks

- What key checks are undertaken on the suitability and appropriateness of applicants prior to their appointment (e.g. identity, qualification, reference checks)?
- Who is responsible for undertaking these vetting checks? Are they always carried out?

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- What evidence is obtained to confirm the performance of these checks and where is this evidence retained?
- Are there any differences in relation to the vetting approach adopted for Senior Officers, new starters and internal transfers etc.?
- Are the key vetting requirements clearly set out in the Recruitment and Selection Policy?
- Are any posts (for example those in areas with potential exposure to serious and organised crime activity) subject to a higher level of vetting?

Disclosure and Barring Service Checks

- Is a policy in place detailing any LA posts requiring a DBS check? If so, what process was followed to identify the posts which should be included and excluded from the checks? Are these posts kept under review?
- How often must DBS checks be undertaken by staff? Is there a system to monitor when a check is due? Does this work?

Secondary Employment and Declarations of Interest

- What arrangements are in place for monitoring and authorising secondary employment?
- Are registers maintained detailing staff and Members with secondary employment and how often are these updated?
- Is there a declaration of interests register for councillors and senior managers and are these periodically reviewed? (See para 4.50 of the [UK Anti-Corruption Plan](#) which outlines the rules requiring Councillors to register and declare certain pecuniary interests – failure to comply can lead to a criminal conviction, a fine up to £5,000 and a prohibition on holding the role of Councillor for up to five years).

Gifts and Hospitality

- Are all staff fully aware of the gifts and hospitality rules and the need to complete the register? How has this information been communicated?
- How often is your gifts and hospitality register updated?
- How is the register checked and monitored for accuracy?

Whistleblowing

(See [Government whistleblowing advice](#) for more information)

- Do you have a Whistleblowing / Confidential Reporting Policy in place and has it been adequately disseminated to all staff, Members and the public?
- Who is responsible for investigating all concerns raised and what reporting arrangements are in place?

- How often has the Whistleblowing / Confidential Reporting Policy been invoked over the last 2 years?
- Have you recently reviewed the Whistleblowing arrangements to ensure they are fit for purpose and effective?

Training

- Is a training programme in place to advise staff and Members of the indicators that they should look for to facilitate identification of officers working under duress or potential corruption?

4. Finance

Anti-money laundering

- What arrangements are in place to identify / monitor unusual or suspicious activity? For example:
 - Are reports prepared from available sources detailing the frequency with which each client makes cash payments and the value of such payments?
 - What parameters / limits are in place for these reports?
 - What action is taken to investigate high values or unusual patterns within the reports?
 - What types of (and frequency of) reports are provided internally to Senior Managers?
- Do you have serious and organised crime reporting arrangements in place and if so are they being followed? Who is responsible for compiling and authorising Suspicious Activity Reports, and how many have been prepared and submitted?
- Have all relevant staff been provided with clear instruction and training on the process to be followed when large amounts of cash are received from a Client? Are these processes being followed.

5. Legislative and regulatory functions (Licensing)

General

- When were your licensing processes last updated?
- Have licensing staff responsible for reviewing licensing applications been subject to DBS or other checks?
- What processes are in place to protect licensing staff from getting pressure applied to them?

Licensing, including Taxi and Private Hire Car Operator and Driver Licences

(See [LGA taxi licensing guidance for members](#) for more information)

Appendix 3

- How many licensing staff are involved in the application evaluation process? Is there adequate segregation of duties?
- How long is each type of licence valid for?
- What information must applicants provide on the application form (e.g. names of all company directors, conviction details etc)? Is all this information verified?
- What vetting checks are undertaken on the application? (e.g. identity checks, convictions check with police and DBS, vehicle / premises checks) Are these always carried out? Do you have adequate information sharing arrangements with police to ensure you have all relevant information on individuals and companies before granting a licence?
- How is the relevance/significance of a conviction determined? Do you have an agreed policy in place? Is this always followed?
- What applications can be approved by licensing staff (using their Delegated Authorities) and which applications are required to go to Committee for approval? Is this appropriate?
- What arrangements are in place to monitor compliance with the terms and conditions of the licences after they have been awarded and what enforcement powers does the LA have? In what circumstances would a licence be revoked? How often does that happen?
- What steps are followed when a licence is renewed? Is it automatic or does the applicant reapply – are convictions etc. rechecked with the police?
- Do you have processes in place to capture and keep all complaints made against a licenced driver or operator? Are all reports acted upon? Are the records monitored for patterns or frequency and used to inform future licensing decisions?

6. **Housing**

- Do you carry out vetting checks (including checking against other internal data sets) on those contracted by the LA to provide shelter / social housing to ensure there are no serious and organised crime (or other criminal) links as part of the procurement process? What information are property owners required to submit?
- How do you know who all the owners are – is there an ownership check? Is this reviewed periodically to ensure the same owners are in place and the property hasn't changed hands?
- Are properties visited and checked on a regular basis? Are checks made that the registered tenants are those living in the property?
- What system is in place for concerns to be raised about the property and to investigate and report on such concerns?
- How are right to buy applications monitored to ensure there is no serious and organised crime / criminal involvement?

POTENTIAL AREAS FOR SERIOUS AND ORGANISED CRIME AUDIT

Below is an overview of some of the services generally offered by Local Authorities in England and Wales. Those services in bold are areas which may be more at risk than others (based on the Scottish Business Exploitation Risk list and outcomes of Home Office OC procurement pilots) The areas each LA chooses to audit will of course vary from LA to LA and depend on local knowledge and discussions with local police.

COMMUNITY SERVICES	CORPORATE AND NEIGHBOURHOOD SERVICES	DEVELOPMENT SERVICES	EDUCATION SERVICES	FINANCE SERVICES	SOCIAL WORK SERVICES
Asset Management	Building Maintenance	Building Design	Pre-five Education and Care	Accountancy	Criminal Justice
Business Support	Catering / School meals	Building Standards	Primary Education	Internal Audit	Family Support
Cemeteries	Cleaning	Consumer Protection	Secondary Education	Payroll / Pensions	Home Care
Community Education	Communications	Development Planning	Home to School transport	Revenues	Housing with Care
Cultural Services	Corporate Policy	Environmental Protection		Treasury and Investment	Residential care
Parks and Recreation	Estates Management	Workplace food / safety			Vulnerable Adults
Sport and Leisure	Facilities Management	Licensing			Vulnerable Children
	Fleet Services	Risk Management			Welfare Benefits
	Grounds Maintenance	Roads Design			
	Housing / Homelessness	Roads Maintenance			
	HR	Transport Planning			
	ICT	Waste Strategy			
	Procurement				
	Refuse Collection				
	Street Cleaning				
	Waste Disposal				

KEY PLANS, POLICIES AND PROCEDURES TO CONSIDER IN RELATION TO SERIOUS AND ORGANISED CRIME

(there are likely to be other plans and strategies not captured here)

Asset Disposal Procedures	Business Planning
Code of Conduct	Contract Management procedures
Corporate Plan	Data Protection Guidelines & Policy
Declarations of Interests register	E-mail & Internet Usage Policy
Financial Planning	Gift and hospitality register
Individual Service Plans	Information Sharing Protocols
IT Security Policy	Licensing Guidelines
Lone Working Policy	Money Laundering Procedures
Procurement Policy (including letting of Home to school transport contracts)	Recruitment Policy (including vetting)
Risk Management	Secondary Employment Guidance
Strategic Planning	Whistleblowing procedures