

Meeting Date	26 March 2014
Report Title	Internal Audit – Sports Development Investigation and Outcome.
Cabinet Member	Clr Dewar-Whalley – Finance Portfolio
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Brian Parsons – Head of Audit Partnership
Lead Officer	Brian Parsons – Head of Audit Partnership
Key Decision	No
Classification	Open

Recommendations	1. That the Audit Committee note the outcome of the Sports Development investigation
	2. That the Audit Committee notes the action that has been taken to improve controls.
	3. That the Audit Committee agrees in principle that a Fraud Protocol is developed to set out the role of Internal Audit in the investigation of potential fraud related events.

Purpose of Report and Executive Summary

- 1.1 The report provides an update to the Committee in relation to a fraud that was previously reported in 2013.

2 Background

- 2.1 Members may recall that an internal fraud was reported to the meeting of the Audit Committee on 26 June 2013. The report was exempt on the basis that a police investigation was ongoing at the time.
- 2.2 Members asked that a report be provided to a future meeting to update the Committee on the outcome of the investigation and to provide assurance that the necessary control improvements were in place to prevent any reoccurrence.

The fraud/theft

- 2.3 The matter came to light when a complaint was made by a member of the public who had personally given the former Sports Development Officer a £200 donation intended to provide rain jackets to a disability football team. The jackets were never purchased.

- 2.4 The initial investigation by the officer's line manager led to a disciplinary hearing and a dismissal for gross misconduct, being for the theft of £435.
- 2.5 Internal Audit was subsequently asked to investigate in order to establish whether any further sums had been misappropriated. The investigation identified that the officer defrauded the Council of a further sum of £8,241. Internal Audit reported the outcome of its fraud investigation (and a subsequent separate review of controls), to the Head of Economy and Communities.
- 2.6 The Internal Audit evidence file was provided to the police and formed the basis for the case which was referred to the Crown Prosecution Service and was eventually scheduled for a Crown Court Hearing on 18 December 2013.
- 2.8 The evidence showed that the former employee abused his position of trust and received money from a range of individuals/organisations. He kept the money but used the Council's funds to disguise the theft by raising cheques to the various organisations drawn on the Council's bank account.
- 2.9 The former Sports Development Officer was convicted of theft and fraud totalling £7,995 at Maidstone Crown Court on 18 December 2013. He was sentenced to four months imprisonment suspended for two years

Action taken to improve controls

- 2.14 In January 2014, Internal Audit carried out a follow-up to its original report. It was established that action had been taken to address all of the control issues that were identified as a result of the original audit investigation and that changes had been made to the way that the service is delivered. The actions included the following:
- A restructure of the Sports Development Team in October 2013 - whereby the Sports Development Manager post and the casual multi-sport coach posts were deleted and a Community Support Officer post introduced
 - The Council no longer provides direct staffing resources or administration support to local sport clubs. The Community Support Officer will instead facilitate local sport clubs in the process of securing external grant monies such as Sportivate but will have no direct involvement in the grant application process or the receipt and payment of grant monies.
 - A one-off grant of £14k has been paid to Sheppey & Sheerness United and an annual grant of £4k will be paid to Kent Cricket Board. This grant money will enable the clubs to resource coaches directly. The Community Support Officer will facilitate these clubs to secure other external funding for 2014/15.

All grant money has been paid on the basis of a formal grant agreement, which have been approved by Legal Services.

- Monies owed to the relevant sports clubs identified during the original fraud/theft investigation (in the region of £800) have been paid directly to the sports clubs.
 - The Sports Development budget is now monitored monthly by the Head of Economy & Communities, the Economy and Community Services Manager, the Economy and Community Services Finance and Administration Officer and the Senior Accountant.
- 2.15 In addition, procedures have been implemented across the Council in relation to the processing of invoices - as a result of the upgrade to the Council's financial management system (Agresso) in October 2013. Systems controls now require separation of duties in the ordering and authorisation of goods and services. All goods and services ordered over £1k must also be supported by an official purchase order. It is therefore no longer possible for a single Officer to both process and authorise a payment.
- 2.16 All of the issues identified during the Sports Development investigation have now been fully addressed and the Council's relationship with local sports clubs has now been made more formal and transparent. It is therefore considered that the controls have improved significantly, and that opportunities for fraud and theft have been appropriately addressed and minimised.

The introduction of a Fraud Protocol

- 2.17 The initial investigation relating to the fraud/theft was not carried out by Internal Audit.
- 2.18 In order to ensure that there is clarity in the event of a further fraud event, Internal Audit has prepared a Fraud Protocol which sets out the role that audit has in a fraud investigation.
- 2.19 A fraud investigation by its nature requires a different approach to a disciplinary investigation because it has to follow the criminal law process, however there may be a need for the disciplinary process to occur in tandem. Internal Audit has the skills and experience to carry out a fraud investigation and is sufficiently independent from management to ensure objectivity. In addition, by following proper criminal law procedures Internal Audit can ensure that all evidence gained during the investigation can be used to support a prosecution.
- 2.18 Discussions on the protocol have taken place with the Head of Human Resources Shared Service. It is intended that a fraud protocol will be agreed which can be used across the four Councils that Mid Kent Audit serves.

3 Proposal

- 3.1 The report has been principally prepared to update the Committee on the circumstances which were described at a previous meeting and also to provide assurance that action has been taken to improve a number of controls that were breached at the time of the incident.

4 Alternative Options

- 4.1 There are no alternative options.

5 Consultation Undertaken or Proposed

- 5.1 The follow-up to the original internal audit report involved discussion with the Head of Economy & Communities and her team. The proposed Fraud Protocol has been provided to the Head of Finance for comment and has been subject to discussion with the Head of HR Shared Service.

6 Implications

Issue	Implications
Corporate Plan	None identified at this stage
Financial, Resource and Property	Some (£1,500) of the stolen money has been recovered. The remainder is subject to recovery by the Court.
Legal and Statutory	The officer was prosecuted under the Fraud Act 2006.
Crime and Disorder	The action taken by the Council to support the prosecution confirms the Councils commitment to support crime and disorder measures and to protect the public purse.
Risk Management and Health and Safety	None identified at this stage
Equality and Diversity	None identified at this stage
Sustainability	None identified at this stage

7 Appendices

- 7.1 None

8 Background Papers

8.1 None.