

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANTI FRAUD AND CORRUPTION STRATEGY

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This report introduces the revised Anti-fraud and corruption strategy.
- 1.2 The approval of the revised strategy will provide a clear and consistent message that the risk of fraud and corruption is real, will not be tolerated and is the responsibility of all Council employees to minimise.
- 1.3 It provides a framework for the effective deterrence, detection, investigation and sanction of fraudulent or corrupt activity.

2. BACKGROUND INFORMATION

- 2.1 The anti-fraud and corruption strategy was last reviewed in December 2015. Since then, there have been significant changes to the Council's fraud responsibilities and response; the creation of a shared fraud resource as part of our shared service arrangements with North East Lincolnshire Council and the moving of responsibility for Housing Benefit fraud investigations to the Department for Work and Pensions as part of single fraud investigation service.
- 2.2 The revised strategy, is strongly influenced by the 'FIGHTING FRAUD AND CORRUPTION LOCALLY -The local government counter fraud and corruption strategy 2016-2019', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre and reaffirms the Council's commitment to tackling fraud and corruption.
- 2.3 The strategy acknowledges the Council's current fraud response, but also highlights areas where further work will be necessary to ensure that response is as robust as possible to protect public funds.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider the content of this report as part of their responsibilities for monitoring and reviewing the Council's arrangements in relation to fraud and corruption and to approve the revised Anti-Fraud and Corruption Strategy.

4. ANALYSIS OF OPTIONS

4.1 No other options considered.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 None directly arising, although failure to address risks may lead to the loss of resources through fraudulent or corrupt activity.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 An Integrated Impact Assessment is not required.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 There are no conflicts of interests to declare.

8. RECOMMENDATIONS

8.1 That the Committee acknowledges and approves the revised Strategy.

8.2 That the Committee oversee an annual review of the effectiveness of the Strategy.

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Background Papers used in the preparation of this report: None



Anti-Fraud and Corruption Strategy

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1. Introduction

1.1. The public are entitled to expect the council to conduct its affairs with integrity, honesty and openness and demand the highest standards of conduct from those working for and with it. They also expect that the council will safeguard public funds and ensure that they are available and used for their intended purpose; to achieve the council's ambition for North Lincolnshire to be the best place to live, work, visit and invest and to ensure it delivers high quality services and improved outcomes for residents..

1.2. To deliver high performance at a time of financial constraint, we need to maximise the resources available to us. Any fraud against the council takes money away from services and undermines our ability to achieve our aims.

1.3. For these reasons, the Council will not tolerate fraud and corruption.

1.4. We will take the strongest possible action against those who seek to defraud the Council. This includes our own Councillors, officers, contracting partners and external individuals and organisations. Our desire is to be a model of public probity, affording maximum protection to the funds we administer.

2. Developing the strategy

2.1. This Strategy sets out the Council's approach to minimising the risk of fraud and corruption occurring, detecting its possible occurrence, and the actions it takes when fraudulent activity is suspected and identified.

2.2. In developing the strategy the Council has adopted the three key principles included in 'FIGHTING FRAUD AND CORRUPTION LOCALLY - The local government counter fraud and corruption strategy 2016-2019', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. These are:

- **Acknowledge - acknowledging and understanding fraud risks**
- **Prevent - preventing and detecting fraud**
- **Pursue - punishing fraudsters and recovering losses**

2.3. In addition the Council has assessed its counter fraud arrangements against the checklist produced by CIPFA to complement their 2016-2019 strategy. Most of the principles are in place; where gaps have been identified we have included them as actions within this strategy.

2.4. The strategy is not a stand-alone document and should be considered in the context of other Council policies, standards and codes including:

- Fraud response plan
- Whistleblowing charter
- Anti-bribery policy
- Anti-money laundering policy
- Code of Corporate Governance
- The Constitution including Contract Procedure Rules and Financial Regulations
- Finance Manual and Procurement Manual
- Human Resources manual
- Codes of conduct for councillors and officers
- Gift and Hospitality Code of Practice
- Risks and Opportunities Protocol
- IT Security Policy.

2.5. The benefits of having a co-ordinated and robust approach to anti-fraud and corruption laid out in this strategy include:

- Greater ability to prevent losses due to fraud occurring, by improving the understanding of the risk
- Being more resilient to fraud and more aware of new fraud risks
- Providing support to the national agenda for fighting fraud
- Being able to clearly account for the effectiveness of the Council's counter fraud arrangements to the public, partners and national stakeholders. This will feature as a core element in the Annual Governance Statement
- Providing assurance over counter fraud arrangements
- Ensuring that resources for counter fraud activity are in line with the potential risk
- Providing assurance that fraud risk is being managed.

3. Acknowledging and understanding the risk of fraud

3.1. All organisations are at increasing risk of fraud and corruption. The illegal and hidden nature of fraud makes it hard to measure accurately. To give some idea of the size of the risk, the estimated level of annual fraud loss across local government in 2010 was £0.7bn¹. In 2016 this figure was estimated at £7.3bn.²

¹ Annual Fraud Indicator 2010 – National Fraud Authority

²Annual Fraud Indicator 2016 – Experian, PKF Littlejohn & University of Portsmouth Centre for Counter Fraud Studies

3.2. Acknowledging this risk is the most important part in developing an appropriate and effective anti-fraud response. Recognising fraud must also incorporate a thorough understanding and knowledge about what the fraud problem is, where it is likely to occur, and the scale of potential losses.

3.3. The Council already has many of the components for a strong counter fraud response in place including:

- A dedicated, professionally qualified counter fraud team as part of its shared services arrangements for Audit and Assurance with North East Lincolnshire Council to promote awareness of fraud related risks and undertake criminal investigations where necessary to protect public funds
- Control arrangements for key financial systems that are robust, being underpinned by statutory requirements, council financial regulations and scrutiny through internal and external audit
- Identification of fraud risks facing the council
- An Audit Committee that will review this strategy as part of its responsibility for considering the effectiveness of counter fraud and corruption activities at the council
- Production of an annual fraud report which is available to the public, which openly acknowledges the fraud risks the Council faces, the types of fraud that have occurred during the year
- Participation in collaborative counter fraud work with other agencies, through the National Fraud Initiative.

3.4. However, it is recognised that with new fraud risks emerging and the results of completing the CIPFA checklist, that there is a need to review our arrangements, taking into account the latest guidance available to ensure our counter fraud response is robust.

3.5. Further actions include:

- Reviewing the fraud risks facing the Council and working with services at greatest risk to minimise losses
- Measuring the awareness of counter fraud risks among Council staff by conducting biennial surveys to measure strengths and weaknesses in fraud awareness
- Raising the general level of fraud awareness among Council staff
- Identifying opportunities to use data matching techniques to reduce fraud losses.

4. Preventing and Detecting Fraud

4.1. More than ever, preventing losses from occurring in the first place is a crucial strand of a robust counter fraud strategy. The council has well established policies, procedures and processes which incorporate efficient and effective internal controls to safeguard the council's resources. The existence, appropriateness, and effectiveness of which are independently monitored and reported on by the council's Internal Audit team.

4.2. The Council will continue to:

- Ensure that anti-fraud controls are considered by management when developing new systems and processes
- Ensure that the testing of the effectiveness of the design and operation of those anti-fraud controls is considered when prioritising internal audit work.
- Conduct proactive exercises into high-risk areas.

4.3. However, prevention extends beyond making sure that there are appropriate system and process controls in place. It depends on the development of an effective anti-fraud culture that reinforces a zero tolerance to fraud and corruption and deters criminals from committing fraud in the first place. An anti-fraud culture should seek to motivate staff and ensure that they understand the importance of tackling fraud, are able to recognise fraud and abuse and know how and where to report suspicions of fraud.

4.4. The Council develops its anti-fraud culture by:

- Making new staff aware of their responsibilities as part of the induction process
- Regularly updating the Council's whistleblowing policy so it takes account of updated national guidance and advice, and publicising these changes
- Publicising its Counter Fraud Strategy and Annual Fraud reports.

4.5. No matter how good the Council's preventative measures are, fraud cannot be completely eradicated. To this end, the Council has a robust Fraud Response Plan that provides a framework for the investigation of allegations of fraud.

4.6. Additionally, the Council will continue to make use of information and technology to verify and validate transactions, or to uncover potential and actual fraud, including the following:

- Continued participation in the National Fraud Initiative, to investigate potential frauds identified through national data matching
- Development of other data matching techniques to prevent and detect fraud in high risk areas

5. Punishing fraudsters and recovering losses

5.1. The Council will take robust and appropriate action to investigate, punish and recover funds from those who seek to defraud it.

5.2. We will seek the strongest available sanctions against any member of the public, contractor, member or employee who commit fraud against the Council, its clients or the public purse. This may include prosecution and additionally for employees, disciplinary action. Prosecutions will be considered in line with the Council's prosecution policy.

5.3. Where appropriate the Council will also work with other public authorities, including the Police, DWP and our insurance providers. We will share information to prevent, detect and investigate acts of fraud against the public purse.

5.4. The Council will always seek to recover any funds or assets that have been lost due to fraud and will use all means available to do so under the Council's Debt Recovery Strategy and where appropriate using Proceeds of Crime Act legislation.

5.5. The Council will seek to publicise the outcomes of such investigations in the Annual Fraud Report, to provide the public with the assurance that public funds are being protected and to act as a deterrent to those that may consider committing fraud in the future.

6. Review and Monitoring

6.1. This strategy will be reviewed annually against best available practice.

6.2. Actions to develop the strategy are included in the Audit and Assurance Team plan. Progress will be monitored by the Audit Committee throughout the year and it will be reported on in the counter fraud progress report and annual fraud reports.

Appendix 1: Definition of terms

As per the Fraud Act 2006, fraud is a criminal offence. Fraud is any action taken by an individual, group or organisation which is designed to facilitate dishonest gain at the expense of (or loss to) the Council, the residents of North Lincolnshire or the wider national community and can include:

- **Fraud by False Representation:** Dishonestly making a false representation, and intend by making the representation, to make a gain for themselves or another, or cause a loss or expose another to a risk of loss.
- **Fraud by (wrongly) failing to disclose information:** Dishonestly failing to disclose information which they are under a legal duty to disclose, and intend by failing to disclose the information, to make a gain for themselves or another, or cause a loss or expose another to a risk of loss.
- **Fraud by abuse of position:** Occupying a position in which the post holder is expected to safeguard, or not act against, the financial interests of another person, dishonestly abuse that position, and intend by such abuse, to make a gain for themselves or another, or cause a loss or expose another to a risk of loss.

Theft is stealing any property belonging to the council or which has been entrusted to it (i.e. client funds), including cash, equipment, vehicles, data. Theft does not necessarily require fraud to be committed. Theft can also include the stealing of property belonging to our staff or members whilst on council premises.

A person is guilty of theft under the Theft Act 1968 if they 'dishonestly appropriate property belonging to another with the intent of permanently depriving the other of it' or they dishonestly retain a wrongful credit. For example where they do not report and repay an overpayment of salary or advance.

Corruption is defined as an act done with the intent to give some advantage which is inconsistent with a public servant's official duty and the rights of others. In the public sector it can also be defined as the abuse of power by a public official for private gain. Forms of corruption vary but include bribery, extortion, nepotism, cronyism, embezzlement.

Bribery is defined as the offering, giving, soliciting or acceptance of inducements or reward designed to influence official action or decision making. Under the Bribery Act 2010, organisations are expected to implement anti-

bribery measures and both organisations and individuals can face significant penalties for failure to meet these requirements.

Money laundering is the process by which the proceeds of crime are changed so that they appear to come from a legitimate source. Legislation concerning money laundering is included within the Proceeds of Crime Act 2002 (the POCA) and Money Laundering Regulations 2007.

A **Whistleblower** is a person who tells someone in authority about alleged improper, unethical, dishonest or illegal conduct, including fraud occurring in any public or private organisation.

The Public Interest Disclosure Act 1998 provides legal recourse for an employee raising the concern should they feel they have been treated unfairly as a result of "whistleblowing".

Appendix 2: Roles and Responsibilities

Councillors	<ul style="list-style-type: none"> • facilitate an anti-fraud and anti-corruption culture • demonstrate a commitment to this strategy and ensure it has the appropriate profile within the Council
Cabinet	<ul style="list-style-type: none"> • ensure the strategy is effectively implemented across the Council
Audit Committee	<ul style="list-style-type: none"> • to approve the corporate fraud strategy • to monitor and review the effectiveness of the Council's anti-fraud and corruption arrangements • ensure that there is strong political and executive support for work to counter fraud and corruption • ensure consistency across the Council in the implementation of this strategy
Monitoring Officer	<ul style="list-style-type: none"> • regularly publicise, and monitor compliance with, expected standards of ethical conduct • ensure that the progress in raising standards will be communicated to stakeholders • ensure that effective Whistleblowing arrangements are established • ensure registers of interests, gifts & hospitality are maintained • ensure Councillors and officers are fully aware of their obligations in relation to probity
Chief Financial Officer	<ul style="list-style-type: none"> • ensure that those working to counter fraud and corruption are undertaking this work in accordance with a clear ethical framework and standards of personal conduct • ensure that those working to counter fraud and corruption are professionally trained and accredited for their role and attend regular refresher courses to ensure they are up to date with new developments and legislation • ensure that there is a level of financial investment in counter fraud and corruption work that is proportionate to the risk that has been identified. • ensure that reports on investigations include a section on identified policy and system weaknesses that allowed the fraud/ corruption to take place where appropriate
Directors and Heads of Service	<ul style="list-style-type: none"> • ensure the risks of fraud and corruption are identified, recorded on the risk register as required and action plans implemented to reduce the risk to an acceptable level • ensure the anti-fraud and anti-corruption strategy is implemented within their area of responsibility • ensure the risk of fraud and corruption is considered in all new processes

<p>Audit and Assurance</p>	<ul style="list-style-type: none"> • support Directors, Heads of Service and their managers in identifying and mitigating risks for fraud and corruption • promote an anti-fraud culture, including awareness campaigns risk assessments, development of tools to identify potential fraudulent activity • ensure all allegations are recorded and risk assessed • conduct investigations in line with legislation, standards and rule of conduct • ensure that those carrying out fraud investigations are adequately trained • notify HR & Legal Services (at the outset of investigations into employees • make recommendations where weaknesses are identified and ensure action plans implemented to prevent reoccurrences • undertake proactive exercises into areas where the risk of fraud is greatest • take into account fraud risks when determining the annual audit plan and the content of specific audit assignments
<p>Human Resources</p>	<ul style="list-style-type: none"> • ensure that there is an effective propriety checking system (i.e. safe recruitment) implemented by appropriately trained staff in place • ensure employment policies support the anti-fraud and anti-corruption framework • monitor effective and appropriate sanctions are applied in all appropriate cases • ensure that all Human Resources staff are aware of the Fraud Response Plan and the action to take if they suspect fraudulent activity • inform Audit and Assurance at the outset of any conduct investigation
<p>Managers</p>	<ul style="list-style-type: none"> • ensure all employees are aware of their responsibilities under the anti-fraud and anti-corruption framework • ensure all employees have read the Employee code of conduct and understand their responsibilities • ensure all employees understand the Whistleblowing policy and reporting arrangements • ensure employees are aware of the process for reporting allegations of fraud • ensure accurate and timely reporting of gifts and hospitality
<p>Employees</p>	<ul style="list-style-type: none"> • understanding of expected behaviour and of their responsibility to report suspected fraud or corruption and the appropriate methods to do so

