

Standards Committee - 12th April 2011

Report of the Director of Corporate Resources and Monitoring Officer

The Anti Fraud and Corruption Strategy

Purpose of Report

1. The original strategy was approved in 2004, and has been subject to revisions in 2009 and 2010. The Standards Committee approves any amendments before full Council approve them. This report proposes further revision to the strategy (see Appendix 1).

Background

2. The corporate governance arrangements for the Council are enshrined in the Constitution and specifically the Code of Corporate Governance. An important part of the governance agenda is for Members and Senior Officers to demonstrate the highest standards of ethics and to promote a culture in which the public, staff and contractors understand that fraud and corruption will not be tolerated in Dudley.
3. Audit Services takes responsibility for reviewing the Anti Fraud and Corruption Strategy and they continue to reinforce the message that fraud and corruption will not be tolerated through the implementation of a Counter Fraud Strategy which has included :-
 - a. Production of a fraud newsletter to all staff twice a year
 - b. Continued delivery of fraud awareness seminars
 - c. Implementation of an on-line fraud awareness course
 - d. Introduced fraud awareness information for all new starters
 - e. Carried out a programme of work by Audit to assist in the detection of fraud e.g. increased data mining and matching techniques
4. The latest amendments reflect :-
 - a. The change of title from Director of Finance to Treasurer
 - b. The move of Benefit Fraud Team to the Customer Services Division
 - c. Financial Regulations changes in July 2010.
5. Audit Services are committed to further develop the strategy to ensure it retains a high profile within the Authority.

Finance

6. There are no significant financial implications arising from this report.

Law

7. Section 111 of the Local Government Act 1972 enables the Council to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its statutory functions.

Equality Impact

8. This report takes account of the Council's policies on Equality and Diversity.

Recommendation

9. It is recommended that the Standards Committee approve the amendments to the Anti Fraud and Corruption Strategy.



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List of Background Papers
None.

Anti – Fraud and Corruption Strategy

Dudley MBC is totally committed to creating and maintaining an environment where fraud and corruption will not be tolerated. The Council operates a zero tolerance on fraud and corruption, all instances will be investigated and the perpetrator(s) will be dealt with in accordance with established policies. Action will be taken to recover any property, assets or monies stolen from the Authority. Where appropriate arrangements will be made to ensure that the case receives maximum publicity to deter potential fraudsters.

1. Foreword

- 1.1 In line with the objectives of Dudley MBC this strategy aims to assist in setting high standards of governance, ethical behaviour and, ensuring the effective use of resources.
- 1.2 Dudley MBC is committed to protecting the public funds with which it has been entrusted. The aim of this strategy is to minimise any losses due to fraud and corruption, which will ensure that resources are used for their intended purpose of providing services to the citizens of Dudley. Adherence to the strategy will also ensure public confidence in the integrity and competence of the Council is maintained.
- 1.3 The Council expects all members, governors and employees will assist in protecting resources and to conduct their affairs with integrity, honesty and openness. To assist in these responsibilities the Council has a Constitution which sets out the governance arrangements and includes Codes of Conduct for members and employees, Standing Orders and Financial Regulations.
- 1.4 There is an expectation that all individuals and organisations dealing with the council, such as contractors, partners, suppliers and users of council services will act with integrity. The council expects all its partners in both the private and public sectors to maintain sound governance arrangements and to set high standards of probity, openness and integrity.
- 1.5 Whilst the Council has a framework of policies and controls for all to follow

there is also a requirement for members and employees to promote a culture in which staff, suppliers and the public recognise that fraud and corruption has no place in Dudley and will not be tolerated.

1.6 Within this governance framework, members, governors and employees all have a part to play. This strategy seeks to clarify the responsibilities in relation to fraud and corruption within the following roles :-

- a. Treasurer
- b. Members
- c. Chief Executive [Head of Paid Service]
- d. Service Directors & Head Teacher/ (and their managers)
- e. Governors
- f. Employees
- g. Internal Audit
- h. External Audit
- i. Benefits Fraud Unit
- j. Audit Committee
- k. Standards Committee

1.7 The Council already has a well-established Confidential Reporting Policy in operation, which is intended to encourage and enable employees and suppliers to raise serious concerns.

2. Definitions

2.1 In this policy statement, 'fraud and corruption' is intended to cover any attempt either :-

- a. To dishonestly obtain cash, assets or other benefits;
- or
- b. To improperly influence decisions.

Fraud typically involves distorting records to conceal misappropriation. Corruption typically involves giving or receiving bribes with a view to influencing decisions.

Financial Regulations also require employees to notify management of any irregularity involving cash, materials or any other property of the council. In this document anything that fits that description should also be regarded as falling under the definition of 'fraud or corruption'.

2.2 Examples of fraudulent or corrupt acts would include :-

- a. Submitting invoices for work not done.
- b. Stealing cash and falsifying records
- c. Falsifying or withholding information to obtain Housing Benefit.
- d. Using Council equipment without permission for private purposes.
- e. Using Council materials for private purposes.

- f. Falsifying hours worked.
- g. Accepting gifts or hospitalities in exchange for placing work.

2.3 The above is obviously not an exhaustive list. In case of doubt, Internal Audit Services should be consulted for further guidance.

3. The Role of the Treasurer

3.1. As the Council's 'responsible financial officer' under Section 151 of the Local Government Act 1972, the Treasurer has overall responsibility for the proper conduct of the Council's financial affairs.

More specifically, under the Accounts and Audit Regulations 2003, he is required to ensure that the accounting control systems include :-

- a. "Measures to enable the prevention and detection of inaccuracies and fraud"
- b. "Identification of the duties of officers dealing with financial transactions and the division of responsibilities of these officers in relation to significant transactions"

3.2. The above responsibilities are discharged through a whole framework of internal controls including :-

- a. Standing Orders
- b. Financial Regulations

All of which form part of the Council's Constitution. In addition, the Treasurer may prescribe more specific controls and procedures against fraud and corruption for individual systems.

3.3. Although the Treasurer is responsible for defining the system of internal controls to prevent/detect fraud and corruption, he is not directly responsible for its implementation, except in any other areas of the Council where he has direct line management responsibilities.

3.4. Under the Council's Financial Regulations, the Treasurer must be notified of any known or suspected irregularities in any financial procedure. This of course encompasses cases of fraud and corruption. He is then responsible for :-

- a. In consultation with the Director of Corporate Resources and the Director/Head Teacher determining which cases should be referred to the police. (All cases where it appears a crime has been committed must be reported). In the case of Members, the Treasurer will consult with the Chief Executive, Monitoring Officer and if appropriate the Audit Commission.
- b. Reporting serious losses over £10,000 to the Audit Committee as soon as practicable
- c. Submitting an Annual Fraud Report to the Audit Committee

- d. Reporting appropriate breaches of Financial Regulations to the Audit Committee.

The Treasurer is also responsible for taking any other appropriate action in order to recover losses e.g. reclaiming (former) employees' superannuation contributions.:-

- 3.5 The general policy of the Council is to pursue the recovery of losses as far as realistically possible.
- 3.6 The Director of Corporate Resources is responsible for ensuring that, where appropriate (as for examples in relation to Housing and Council Tax Benefit Fraud), prosecution policies are formulated and applied so that consistent practice can be more readily achieved.
- 3.7 Where, following an investigation into suspected fraud or corruption, a Service Director decides not to instigate disciplinary proceedings, the Treasurer may refer the matter for consideration by the Chair of the Audit Committee in consultation with the Chief Executive, if he disagrees with that Service Director's decision.
- 3.8 Under the Accounts and Audit Regulations 2003, the Treasurer is responsible for maintaining 'an adequate and effective internal audit'. As part of that overall responsibility the Treasurer must assure himself that Internal Audit adequately and effectively reviews the Council's controls against fraud and corruption.
- 3.9 The Director of Corporate Resources has overall responsibility for ensuring that the Benefits Fraud Unit in Benefits Services performs its role effectively.

4. The Chief Executive

- 4.1. The Chief Executive must ensure that members receive appropriate training, guidance and advice on their responsibilities in relation to the prevention and detection of fraud and corruption.
- 4.2. The Chief Executive should periodically remind members and employees of their responsibility to comply with the requirements of their respective codes of conduct in the Council's constitution e.g. with regard to the declaration of interests, conflicts of interest etc.
- 4.3. Where the Treasurer disagrees with a decision of a Service Director not to instigate disciplinary proceedings in a case of fraud or corruption, he may refer the matter for consideration by the Chair of the Audit Committee in consultation with the Chief Executive. The Chief Executive must advise the Chair of the Audit Committee on what action he considers appropriate.
- 4.4. As a deterrent to others, the Council's general policy is to give maximum publicity to proven cases of fraud and corruption committed either against the Council, or by

Council members or employees in their official capacity. A case would normally be considered proven if :-

- a. A person(s) - i.e. a member of the public, employee of the Council or elected member - had been found guilty in criminal proceedings.
- b. An employee(s) had been dismissed for gross misconduct (where no further appeals were available).
- c. The Standards Board or the Standards Committee had found a member(s) culpable.

The Chief Executive has overall responsibility for the implementation of this policy.

5. Members

- 5.1. Members should ensure that they understand and comply with requirements of the Members Code of Conduct (which forms part of the Council's Constitution). Specific requirements relating to the prevention of fraud and corruption are concerned with:
 - a. Disclosure of interests
 - b. Registration of interests
 - c. Recording of gifts and hospitality
- 5.2. Members involved in planning decisions should familiarise themselves with the Code on Planning and comply with its requirements.
- 5.3. Members should ensure that they understand and comply with :-
 - a. Those parts of Standing Orders and Financial Regulations which are relevant to their role
 - b. All other relevant parts of the Council's Constitution.
- 5.4. Where members are uncertain about any of their responsibilities in relation to the prevention and detection of fraud and corruption, either in general or in particular cases, they should seek advice from the Chief Executive or the Treasurer.
- 5.5. Under the Council's Financial Regulations Members must inform the Treasurer of any known or suspected irregularities concerning cash, materials or any other property of the Council. This of course includes any instances of fraud or corruption. If these cases involve other members, they should also inform the Chair of the Standards Committee.
- 5.6. Members should not normally refer cases of known or suspected fraud or corruption directly to the police. Under the Council's Financial Regulations, this is the responsibility of the Treasurer in consultation with the Director of Corporate Resources.

6. Service Directors, Head Teachers & and managers to whom they delegate these responsibilities

[This section includes the Chief Executive and Treasurer]

- 6.1. Service Directors and Head Teachers are responsible for preventing and detecting fraud and corruption in their services by maintaining effective control systems and ensuring that staff adhere to them. They are also responsible for ensuring they have considered the risk of fraud in their activities. Appropriate entries should be made in their Risk Register including mitigating actions to help prevent and detect fraud.
- 6.2. Specifically, they must ensure that :-
 - a. The framework of internal controls set out in the Council's Constitution including Standing Orders, and Financial Regulations are observed.
 - b. Any other controls required by the Treasurer are fully implemented (this includes but is not limited to recommendations made by Internal Audit).

In addition they should put into operation whatever other controls they consider necessary to prevent/detect fraud and corruption in the activities for which they are responsible, including partnerships. In doing so, they should take account of the recommendations and advice of Internal Audit, External Audit and the Risk Management and Insurance Section.

- 6.3. They must ensure that staff are fully conversant with :-
 - a. Those parts of Standing Orders and Financial Regulations which are relevant to their jobs
 - b. The requirements of the Employee's Code of Conduct in the Constitution e.g. in relation to declarations of interest.
 - c. Any other relevant parts of the Constitution.

They should ensure that staff receive appropriate training in these matters and also, particularly in areas of high risk of fraud and corruption, general training in fraud awareness.

- 6.4. A key preventative measure against fraud and corruption is the appointment of staff of known good character. Service Directors and Head Teachers should therefore ensure that :-
 - a. References testifying to the honesty and integrity of potential employees are obtained before a person is appointed;
 - b. Check that qualifications are legitimately held
 - c. In appropriate cases, checks are made with the Criminal Records Board and/or Independent Safeguarding Authority as appropriate
 - d. Ensure that potential employees have the right to work in the United Kingdom.

- 6.5. Under Financial Regulations Service Directors and Head Teachers who suspect that an irregularity involving cash, materials or any other property of the Council may have occurred must inform their Director who must inform the Head of Audit services or the Treasurer. This includes cases of fraud and corruption.

[N.B. If a case is concerned with Housing or Council Tax Benefit, the Principal Officer in the Benefits Fraud Unit may be informed, unless Benefit Services staff may themselves be implicated, in which case the notification should be made to the Treasurer or the Head of Internal Audit Services]

- 6.6. Service Directors and Head Teachers should not notify the police of cases of fraud and corruption. This is the responsibility of the Treasurer, in consultation with the Director of Corporate Resources and relevant Director and/or Head Teacher.

[N.B. There is an exception where the circumstances clearly indicate that losses have resulted from forced entry. In that case, the police should be notified directly and the Risk Management and Insurance Section who should notify Internal Audit if it is considered that there may have been weaknesses in security arrangements.

- 6.7. Service Directors and Head Teachers should not authorise any investigation of fraud or corruption, or make suspects aware that they are under suspicion, without the prior agreement of the Head of Internal Audit (or authorised deputy). In particular they should not undertake any surveillance of a suspect unless it has been considered in the light of the Council's RIPA Guidelines.
- 6.8. Where it is agreed with the Head of Internal Audit that an investigation into fraud or corruption should be undertaken by staff in a Service Directorate or School, no final decision on whether to proceed with disciplinary action should be taken until Internal Audit has had the opportunity to review the investigation and undertake any further work they consider necessary.
- 6.9. Directors are responsible for ensuring that information relating to their services produced by Audit Commission's bi-annual National Fraud Initiative is thoroughly investigated.

7 Governors

- 7.1 All governors should familiarise themselves with the governors code of conduct, and ensure they comply with its requirements.

7.2 Governors need to ensure they are aware of their responsibilities in relation to the prevention and detection of fraud and corruption and how to respond should they suspect any irregularity. These duties and responsibilities are outlined in the governors handbook.

8 Employees

- 8.1 All employees should familiarise themselves with the Employee's Code of Conduct (which forms part of the Council's Constitution) and ensure they comply with its

requirements. Specific requirements relating to the prevention and detection of fraud and corruption include :-

- a. Declaration of relationships with contractor.
- b. Relationships with applicants for employment.
- c. Personal interests in conflict with the Council's interests.
- d. The separation of duties in tendering.
- e. Giving/receiving gifts.
- f. Giving /receiving hospitality.

In addition, staff are expected to observe any Code of Conduct laid down by any professional body to which they belong, where membership is necessary or relevant to their job with the Council.

8.2 All employees should familiarise themselves with :-

- a. Those parts of Standing Orders and Financial Regulations which are relevant to their job
- b. Any other relevant parts of the Council's Constitution.

Employees should ensure that they comply with all relevant requirements. In case of doubt about which requirements are relevant to them, or how these requirements apply, they should seek guidance from their managers.

8.3 Under Financial Regulations, an employee who suspects that an irregularity involving cash, materials or any other property of the Council may have occurred must inform their Director. This includes any instances of fraud or corruption. Normally employees should notify the Treasurer of such cases through the management in their own Directorate. However, if an employee has concerns about raising the matter with their own Directorate management, the Council's Confidential Reporting Policy sets out how it can be reported to a number of other contacts, anonymously if necessary.

Employees must also inform their manager of any illegality, impropriety , breach of procedure or serious deficiency in the provision of service.

9 Internal Audit

9.1 Management, not Internal Audit, are primarily responsible for the prevention of fraud and corruption. Internal Audit's main role is to independently review how effectively management are managing and controlling their risks, including the risks of fraud and corruption.

9.2 The Head of Internal Audit must ensure that the resources that Internal Audit apply to fraud and corruption work are appropriate to the risks and are used effectively.

9.3 Where Internal Audit find that controls against fraud and corruption are inadequate in principle or ineffective in practice they must report this to management together with recommendations on how the situation can be improved.

9.4 Where cases of known or suspected fraud have been identified, the Head of Internal Audit in consultation with management in the relevant Directorate is responsible for deciding who should investigate them, whether :-

- a. Internal Audit
- b. Staff in the Directorate
- c. Other
- d. A combination of the above

9.5 Where, an investigation into fraud and corruption has not been conducted by Internal Audit, they must have the opportunity to review that investigation before any final decision on disciplinary proceedings is made and to request or conduct any further work which they consider necessary.

[NB This would not apply to any case which had been reported directly to External Audit and which they had decided to investigate themselves].

9.6 Internal Audit is responsible for coordinating and overseeing :-

- a. The processing of data received through the Audit Commission's bi-annual data matching exercise, the National Fraud Initiative
- b. Other data matching exercises for the prevention of fraud
- c. Maintaining a Counter Fraud Strategy
- d. Maintaining a Fraud Response Plan
- e. Benchmarking counter fraud practices against best practice guidance

9.7 Internal Audit is also responsible for liaising with the Audit Commission on any significant cases of fraud and corruption.

9.8 Internal Audit will also co-ordinate the promotion of fraud awareness and associated control topics across the Council using a variety of methods including seminars and other training resources.

9.9 Internal Audit may review the operation of Housing Benefit Fraud Unit as part of its programme of planned audits, but it has no responsibility for investigating cases of fraud or corruption relating to Housing or Council Tax Benefit. The only exception to this is where there is a possibility that Benefits Service staff may themselves be implicated in the fraud or corruption. In such cases the Treasurer, in consultation with the Head of Internal Audit must decide how such cases are to be investigated.

10 External Audit

10.1 As part of their statutory responsibilities, External Audit must determine whether the Council has adequate arrangements for standards of financial conduct and preventing and detecting fraud and corruption.

10.2 Where information about known or suspected fraud or corruption at the Council is supplied to External Audit, they may decide to investigate and report on the matter themselves.

11 Benefit Fraud Unit

- 11.1 The Benefit Fraud Unit, within Benefit Services, is responsible for investigating all cases of Housing Benefit and Council Tax fraud with the exception of any in which Benefits Services staff may themselves be implicated. The Treasurer in consultation with the Head of Audit Services will decide how such cases should be investigated.
- 11.2 The Benefits Fraud Unit is also responsible for investigating and reporting information on Housing Benefit and Council Tax benefit cases identified through the Audit Commission annual data matching process (the National Fraud Initiative).
- 11.3 The Head of Benefits Services is responsible for developing a prosecution policy for cases of fraud and corruption relating to Housing or Council Tax benefits, and for ensuring that the policy is consistently applied.

12 The Audit Committee

- 12.1 Under the Council's Constitution the Audit Committee is responsible for overseeing that :-
 - a. There are proper arrangements for the conduct of the Council's financial affairs (this of course includes proper arrangements for the prevention and detection of fraud).
 - b. There are effective internal and external audit arrangements, [again this would include effective arrangements for the audit of controls to prevent and detect fraud or corruption].
- 12.2 Under the Council's Financial Regulations, the Treasurer must report appropriate breaches of Financial Regulations to the Audit Committee. The Committee must determine what action, or further action, should be taken in such cases.
- 12.3 The Treasurer will also submit details of significant frauds to the Audit Committee and also an Annual Fraud Report.
- 12.4 Where the Treasurer disagrees with the decision of a Service Director not to instigate disciplinary proceedings in a case of fraud or corruption, he may refer the matter to be considered by the Chair of the Audit Committee in consultation with the Chief Executive. The Chair of the Audit Committee, in consultation with the Chief Executive, must determine what action shall be taken.

13. The Standards Committee

- 13.1 The Standards Committee will review any case of known or suspected fraud or corruption involving a member of the Council and/or refer it to the Standards Board.
- 13.2 As part of its periodic review of the Code of Conduct for Members, the Standards Committee should examine the requirements of the Code relating to the prevention, detection and deterrence of fraud or corruption by Members. They should ensure that these requirements are as relevant, rigorous and comprehensive as practically possible.