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FRAUD POLICY REVIEW

1   INTRODUCTION

1.1   The purpose of this report is to present to the Audit Committee with a review of the following policies and action that has been taken by the Council.

- Anti-Fraud, Bribery and Corruption Policy
- Whistleblowing Policy
- Anti- Money Laundering Policy

1.2   The Terms of Reference of the Audit Committee include the requirement to approve council policies on Whistleblowing, Anti-Fraud, Bribery and Corruption and Anti-Money Laundering.

1.3   The purpose of the policies is to ensure that Members and Officers take the necessary steps to prevent, deter, detect and investigate fraud and that the Council has in place proper procedures to prevent corruption including bribery.

1.4   For the purposes of this report the terms fraud, bribery and corruption are defined as follows:
- Fraud – dishonestly making a false representation, failing to disclose information which there is a legal duty to disclose or abuse of position to make a gain for their self or another, or to cause loss to another or to expose another to a risk of loss.
- Bribery - giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so.
- Corruption - Forms of corruption vary, but include bribery, extortion, cronyism, nepotism, patronage and embezzlement. By its nature corruption can be difficult to detect as it usually involves two or more people entering into a secret agreement.

1.5   The current economic climate may lead to an increase in fraud as some individuals struggle with increasing debt and lower incomes. Evidence of Increased threat is reflected in the fact that in May 2011 the Secretary of State for Communities and Local Government identified Ten Ways to Tackle Fraud in the Public Sector and shortly after that the Cabinet Office published a further report entitled Eliminating Public Sector Fraud detailing estimates for Local Government Fraud

1.6   The Council has Policies for Anti-Fraud, Bribery and Corruption, Whistleblowing and Anti-Money Laundering which demonstrates its commitment to addressing fraud, bribery and corruption. The Anti-Fraud and Corruption policy was updated last year to include consideration of the new Bribery Act, 2010.

1.7   The Anti-Fraud, Bribery and Corruption Policy sets out the Council's stance on fraud and corruption, including bribery. Members and officers need to ensure that processes and procedures are in place to prevent, deter, detect and investigate fraud. Where the Council suffers loss, procedures for sanctions and recovery also need to be in place.

2   REVIEW OF THE CURRENT FRAUD RELATED POLICIES

2.1   It has been identified that there has been no changes in legislation that require updates to any of the Fraud related policies.

2.2   The Policies identify that the Council will take all steps to minimise the risk of fraud, bribery, corruption and dishonesty by ensuring that we:
- Carry out appropriate risk assessments (Fraud Risk Register is attached as Appendix 1)
- Vet all potential employees prior to their employment with NFDC

- Have a robust internal control framework, including clear and practical policies and procedures, which are effectively implemented, monitored and reviewed.
- Perform our business activities with due diligence in a transparent and ethical manner
- Encourage the reporting of suspected wrong doings
- Seek prosecutions and impose appropriate sanctions
- Take appropriate action to recover any losses

2.3   A table detailing the steps taken to minimise Fraud, Bribery and Corruption can be found in Appendix 2.

2.4   The Code of Conduct for Employees includes a duty to report any suspected cases of fraud or corruption or dishonesty as an essential part of the process of protecting the Council, its property and reputation.

2.5   Internal Audit is responsible for:
- The independent appraisal of control systems and their operation
- Carrying out investigations, by suitably qualified staff, into suspected corporate irregularities
- Recording all suspected or detected fraud, bribery or corruption

2.6   The following areas have been identified for improvement;
- To develop a Fraud response plan.
  This has been drafted and attached as Appendix 3 for approval.
- To implement a new training programme across the Council
  The proposal is to develop an on-line training package that can be tailored to the needs of individual services which can be used on induction and as refresher training. This will be completed with the assistance of ICT and within the proposed Internal Audit Plan 2013/14
- To utilise the Councils Web pages to improve communication
  To develop and post an e-form on the Internet and Intranet as an additional tool for individuals to report potential fraud cases to the Internal Audit team. This will be completed with the assistance of ICT and within the proposed Internal Audit Plan 2013/14

3   FINANCIAL IMPLICATIONS:

3.1   There are no direct financial consequences arising from this report, however poor controls may lead to financial losses.

4   EQUALITY & DIVERSITY AND ENVIRONMENTAL MATTERS:

4.1   There are no equality and diversity or environmental matters directly associated with this report.

5   CRIME & DISORDER IMPLICATIONS:

5.1   There are no direct crime and disorder implications arising from this report, however these documents do consider the risk of criminal activity.

6   RECOMMENDATIONS

6.1   It is recommended that Audit Committee note the contents of the fraud risk register, fraud prevention, and detection work.

It is recommended that Audit Committee approve the fraud response plan detailed within Appendix 3.

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Background Papers
Anti-Fraud Bribery and Corruption Policy
Whistleblowing Policy
Anti-Money Laundering Policy

Risk No	Gross Risk			Risk	Example Consequences	Desired Outcome	Control Processes/Mitigation	Residual Risk			Risk Owner
	Likelihood	Impact	Risk Score					Likelihood	Impact	Risk Score	
1(F)	4	3	12	**Unauthorised Disclosure of Data** Risk that inadequate information management arrangements lead to unauthorised access or disclosure of sensitive information which is further used to gain an advantage i.e. identity theft	• Increase in identify theft/fraud • Increase in corruption • Reputation declines • Financial losses • Negative impact on partners	Fraud and corruption prevented Information is appropriately protected and managed	- Data Protection Officer - ICT Security Officer - ICT Security Policy - Whistle blowing Policy - Audit Trails - Training and communication	2	3	6	LU
2(F)	3	3	9	**Economic Downturn** Risk of an increase in dishonest behaviour by staff and the public due to personal financial difficulties Risk that fewer staff as a result of financial constraints leads to an increase in errors and/or a reduction in controls	• Increase theft/fraud • Increase in corruption • Reputation declines • Financial losses • Negative impact service delivery • Negative impact on staff morale	Fraud and corruption prevented	- Fraud & Corruption Policies inc. whistle blowing - Good Internal Audit function - Good Internal Control's in place - In-House Fraud Team - Monitoring arrangements - Fraud Training - Fraud publicised through press releases	2	3	6	LU
3(F)	4	4	16	**Inadequate Internal Control Arrangements** Risk that inadequate Internal Controls lead to an increase in theft,	• Increase in theft/fraud • Increase in corruption • Undetected errors • VFM declines	Fraud and corruption prevented	- Fraud & Corruption Policies inc. whistle blowing - Good Internal Audit function - Regular assessment of	1	3	3	LU

Ref	L	I	Score	Risk	Consequences		Controls	L	I	Score	Owner
				waste, mismanagement and errors go undetected	• Reputation declines • Financial losses • Negative impact on performance and service delivery		internal control adequacy (including external scrutiny) - Skilled/Trained Audit staff - Audit Trails - Annual Audit of Main Financial systems - Audit Committee				
4(F)	3	3	9	**Inadequate Resources (People and Financial)** Risk that a lack of finances and/or appropriately skilled people leads to an inability to investigate or mitigate against Fraud and corruption	• Increase in Benefit Fraud • Negative impact on benefit fraud detection • Negative impact on internal fraud detection • Breakdown in Internal Controls • Increase in theft/fraud • Increase in corruption • Reputation declines • Financial losses • Failure to meet Government Targets • Negative impact on staff morale	Fraud and corruption prevented	- High performing Internal Audit & Fraud Teams - Good relationships with partners i.e. Police	3	3	9	LU
5(F)	4	4	16	**Building Security** Risk of unauthorised access to data systems and equipment through inadequate building security	• Increase theft/fraud • Increase in corruption • Reputation declines • Financial losses • Negative impact service delivery • Increase in	Fraud and corruption prevented	- Swipe access to buildings - Building access restricted to authorised personnel - System password controls - Site Officers - CCTV	2	3	6	LU

					vandalism		- ICT Security Officer - Alarm Systems			9	
6(F)	4	4	16	**Inadequate Contract Management, Procurement and Partnership Arrangements** Risk that the arrangements for contract management and procurement are inadequate to prevent fraud and corruption occurring	• Increase theft/fraud • Increase in corruption • Reputation declines • Financial losses • Negative impact on project delivery • Cutting corners leads to negative Health and Safety, Service and/or Environmental implications • VFM not achieved	Fraud and corruption prevented	- Sound Internal Control arrangements - Standing Orders as to Contracts* - Standing Orders User Guide* - Financial Regulations* - Contract monitoring arrangements* - Internal Audit (inc. Contract Audit) - Whistle blowing policy *All subject policy update	3	3	9	LU
8(F)	2	3	6	**Recruitment** Risk that inadequate recruitment controls allows dishonest staff to be employed	• Increase theft/fraud • Increase in corruption • Reputation declines • Financial losses • Data Misuse/theft • Increased risk to vulnerable people i.e. tenants • Negative impact on service delivery • Negative impact on staff morale	Fraud and corruption prevented	- Recruitment policy (inc. CRB checks) - References taken up - Personnel training sessions (Brief Bites) - Psychometric tests included in appointment of some posts	1	3	3	LU
9	2	3	3	**Staff Welfare**	• Staff injury or accident as a	Improved staff attendance and	- Lone working training	1	2	2	

				Risk that staff are injured during work	result of lone working, driving to VDU use	welfare	- Audit procedures in place for out of hours working - Attendance and adherence with H&S policies and procedures				
10	3	3	9	**Tenancy Fraud** Risk that authority housing is occupied by unauthorised tenants Risk that authority housing is unoccupied	• Increased homelessness • Increased waiting list • Housing entitlement incorrect	Tenancy fraud prevented	- Review housing where no access to the property has been gained to undertake gas inspection - Set up Fraud Hotline to report tenancy fraud - Undertake an advertising campaign alerting members of the public to tenancy fraud	2	3	6	

PREVENTION AND DETECTION WORK

Carry out appropriate risk assessments	A Fraud Risk Register has been compiled and is regularly reviewed
Vet all potential employees prior to their employment with NFDC	A rigorous recruitment and selection process seeks to establish, as far as possible, the previous record of potential employees in terms of their propriety and integrity. Written references for potential employees are obtained before employment offers are made and CRB checks are carried out where appropriate.
Have a robust internal control framework, including clear and practical policies and procedures, which are effectively implemented, monitored and reviewed. Utilising tools to help detect fraud	Internal Audit evaluates risk management processes and reviews the adequacy and effectiveness of internal control throughout the authority. Governance is reviewed and reported annually through the Annual Governance Statement. Internet usage reports are available however due to resource implications these are only sent to Managers on a reactive basis.
Perform our business activities with due diligence in a t ransparent and ethical manner	Contract Project, Transparency Agenda Council's Code of Conduct for Members (as per Constitution) Employee Code of Conduct Code of Conduct for Councillors Gifts and Hospitality Protocols Register of Employee Interests Dealing with Planning Matters
Encourage the reporting of suspected wrong doings	Whistleblowing policy A Fraud hotline has been set up enabling the public to notify the Council of any concerns regarding benefit and housing fraud in total confidence.
Seek prosecutions and impose appropriate sanctions	The Council supports the Central Government anti-fraud policies regarding the Benefits Sector and has, in response, established a dedicated Investigation Team. The team is staffed with fully trained investigators. The Council fully supports the work of the team in the prevention, detection, deterrence and prosecution of fraud in the Benefits Sector.
Take appropriate action to recover any losses	POCA Trained investigation staff Effective Disciplinary Procedures
Keeping up t o date with emerging fraud risks and working with third parties	Officers attend seminars and workshops Close working with Department Of Working Pensions Undertaking data matching service with Audit Commission and completion of the Protecting the Public Purse questionnaire. Attending Hampshire wide Audit Fraud Groups to share best practice and local issues

DRAFT FRAUD RESPONSE PLAN

Members
Any information concerning suspected fraud or corruption involving an Elected Member must be referred to the Monitoring Officer, who will decide upon the most appropriate method of investigation.

Employees
The following fraud response plan should be used for incidents involving employees

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Stage 1 – Commencing an Investigation

Decisions to proceed with an investigation will be made by the appropriate Head of Service in conjunction with the Internal Audit and a member of the HR Team. At this point the above officers will need to assess whether there is a requirement for any employee to be suspended.

Stage 2 – Appointment of Investigating Officers

An Investigation Officer will be appointed and the overall lead for the investigation decided. (depending on its nature/significance).

Stage 3 – Planning the Investigation

The Investigating Officer and/or the Internal Audit lead officer to ensure that a plan of action is drawn up. The Internal Audit officers will as a matter of priority ensure that all relevant evidence including documentary records pertaining to the investigation are immediately secured.

Stage 4 – Referral to Police

If the investigation relates to a suspected criminal offence Internal Audit will need to consider (in conjunction with the Head of Service, Legal Services and HR) whether to inform the Police. If they decide that a formal police investigation is necessary then liaison with the Police will normally be via Legal and Internal Audit lead.

Stage 5 – Gathering Evidence

The Investigating Officer will ensure, in conjunction with the Internal Audit lead officer that all evidence of fraud or corruption relating to the investigation is gathered objectively, systematically and in a well documented manner. Where this is being carried out in conjunction with a Police investigation the Internal Audit lead officer will be responsible for preparing any required statement and assembling all evidence and exhibits. The Internal Audit lead officer will keep the Investigating Officer fully informed of all developments with any Police investigation.

Stage 6 – Progress Reviews

During the course of the investigation, the Internal Audit lead officer will produce interim reports (which can be verbal reports) on progress and findings. These will normally be to the Investigating Officer.

Stage 7 – Conclude Investigation and Improve System Controls

The Internal Audit lead officer will produce a final report that may be used by management as a basis for disciplinary action, where necessary, in liaison with HR.

The report will identify any system weaknesses that enabled the fraud to occur and make recommendations for improvements. Managers are expected to take prompt action to implement recommendations.

Stage 8 – Recovering Losses

The Investigating Officer will ensure that all opportunities are followed to obtain compensation for any losses to the Council including insurance, voluntary restitution or by compensation claims.

Stage 9 – Press Release

The decision to issue press statements about fraud or corruption cases that have been investigated and proven by the Council will be made by the Investigating Officer, Internal Audit and Legal Services, together with an Executive Director. They will take account of, on a case by case basis, any sensitive and legal issues involved and the need for confidentiality.