



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
26 JUNE 2008**

Report of the Head of Audit and
Risk Management

ITEM 12

STAFF FRAUD AND PRE-EMPLOYMENT CHECKS

RECOMMENDATION

- 1.1 To request an update to a future meeting of the Committee on any developments concerning pre-employment checks as part of the Council's recruitment process.

SUPPORTING INFORMATION

- 2.1 At the Committee meeting on 3 April 2008, I briefed Members on feedback I had received from the Economic Crime Unit, Derbyshire Constabulary, following their investigation into the Council's former Debt Recovery Manager. One area of concern was the Department's failure to verify the academic and professional qualifications of the officer when he was originally appointed.
- 2.2 Despite numerous requests over a five year period for the officer to supply evidence of his qualifications, these were never produced.
- 2.3 The Chair requested that the Assistant Director, Human Resources, attend the next meeting of the Committee to provide assurances to Members that controls over recruitment were operating correctly.
- 2.4 I have been doing some background research on tackling staff fraud and pre-employment checks. Appendix 2 contains a briefing note on 2 documents that I have come across during my research. The Assistant Director, Human Resources has asked that work in this area is built into the current work his staff are doing on recruitment processes.

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Background papers: None

List of appendices: Appendix 1 – Implications
Appendix 2 – Briefing Note on Tackling Staff fraud and Pre-Employment Checks

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. None directly arising.

Tackling Staff Fraud and Dishonesty: Managing and Mitigating the Risks

This is a guide produced jointly by the Chartered Institute of Personnel and Development and CIFAS – the UK’s Fraud Prevention Service aimed primarily at HR professionals to raise awareness of the potential threat posed by staff fraud and dishonesty. It provides examples of generic best practice aimed at managing and mitigating the related risks.

The Guide is split into 8 parts. Part 1 defines what is meant by staff fraud while Part 2 examines why it is a growing risk. Part 3 is concerned with combating staff fraud and provides profiles and common characteristics shared by staff fraudsters. The remaining 5 parts cover the 5 CIFAS strategic prevention areas that can help in effectively combating staff fraud:

1. Vetting and security screening
2. Internal corporate culture
3. Monitoring staff
4. Effective policies
5. analysis and deterrents

The conclusions drawn in the Guide provide several best practice policies and procedures that should be considered:

- establishment of dedicated units to specialise in proactively targeting and reactively investigating cases of staff fraud
- Vetting and security screening – need to verify candidate identities, personal details and references, as well as undertaking further background checks on all prospective employees
- Creating a rigorous anti-fraud internal culture that promotes honesty, openness, integrity and vigilance throughout the workforce.
- All staff should receive specific awareness training. Training should communicate to staff what early warning signs exist with respect to staff fraud, what to do if approached, personal safety issues and how to report staff fraud.
- Getting the right balance between monitoring staff, having effective controls and providing a quality customer service.
- Staff access to systems, databases and communication channels should be restricted to a level appropriate to their individual role.
- Departments where staff fraud poses a huge risk should introduce stringent controls and tough anti-staff-fraud measures.
- Using specialist software to monitor, flag up and identify suspicious activity by staff and create exception reports after analysing variables from employee, customer and transactional information.
- When staff fraud is identified, an effective communication policy is essential to prevent disruption and a negative impact on morale by dispelling any speculation, misinformation, unsubstantiated rumours or gossip circulating within departments.
- Those proved to be involved in staff fraud should be ‘named and shamed’ as a deterrent. This should take place in an appropriate forum or using an appropriate medium to minimise disruption to the rest of the workforce, for example, an intranet, circulars, conferences, training, and so on.
- A true zero-tolerance policy should be implemented in which all cases of staff fraud with sufficient burden of proof are reported to the police to facilitate a prosecution.

In my opinion, the majority of these best practice procedures exist at Derby to a varying degree. For example, we have a sound anti-fraud strategy in place. While we have procedures in place to detect and investigate fraud, we need to do more to deter and prevent it. I do believe that the vetting of new starters should be improved, certainly on those staff with a financial role. I have done some work with Derby Homes on this which has identified further pre-employment checks that could be done. The Derby Homes Audit Committee has considered these and given concerns over human rights, data protection etc. would prefer to see if the City Council followed such checks first.

Fraud Prevention Through Pre-Employment Screening

This paper was written by the Chief Auditor at the London Borough of Waltham Forest (LBWF) and examines the benefits of carrying out pre-employment checks on successful job applicants.

At Derby, we do run a number of recruitment checks – medical, taking up references and checking qualifications. There are also opportunities to question gaps in employment history. However, how rigorously these are done varies throughout the Council.

This paper highlights that despite normal recruitment checks, a number of public sector organisations have found that employees have provided false information when applying for jobs. This is often due to officers not being trained to recognise false employment histories and general fraud indicators.

It draws on previous published good practice i.e. Department of Work and Pensions and the Audit Commission. One key area is that Internal Audit annually reviews all recruitment and vetting procedures – this is not done regularly at Derby and clearly needs to be. Other issues include verifying that previous employers were genuine and verifying previous employment and duties performed – references do not always provide this.

At LBWF checks include matching periods of employment to benefit claims and addresses to benefit claims. They have also found instances of the same referee providing a reference for several different applicants, but each time the reference contained the same wording. LBWF also vet contractors, suppliers and consultants.