



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS  
COMMITTEE  
25 OCTOBER 2006**

# ITEM 10

Report of the Head of Audit and  
Risk Management

## FRAUD RESPONSE PLAN

### RECOMMENDATION

- 1.1 To approve the Fraud Response Plan attached at Appendix 2.

### SUPPORTING INFORMATION

- 2.1 The City Council is committed to protecting the public funds with which it has been entrusted. Minimising the losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purpose for which they are intended, namely the provision of high quality services to the citizens of Derby. The Council has a range of policies and procedures that facilitate this process. These include the Anti-Fraud and Corruption Strategy and the Confidential Reporting Code which form part of the Council's overall strategy.
- 2.2 The public is entitled to expect the City Council to conduct its affairs with integrity, honesty and openness, and demand the highest standards of conduct from those working for it and with it.
- 2.3 The Fraud Response Plan sets out how Council staff and others should report suspicions or allegations of fraud and corruption and how the Council will handle them.
- 2.4 The Head of Audit and Risk Management is responsible for the Fraud Response Plan. He will assess compliance with the Fraud Response Plan to ensure that all investigations conform to it and are undertaken in accordance with legislation and Council policy and procedures.
- 2.5 The Fraud Response Plan will be reviewed annually and brought before this Committee for approval.

**For more information contact:** Richard Boneham, Head of Audit and Risk Management, 01332 255688  
richard.boneham@derby.gov.uk

**Background papers:**

**List of appendices:**

Appendix 1 – Implications

Appendix 2 – Fraud response plan

<b>IMPLICATIONS</b>
---------------------

**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. The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

# **DERBY CITY COUNCIL**

## **Fraud Response Plan**

**September 2006**

## 1. Introduction

### 1.1 What are Fraud and Corruption?

- 1.1.1 There is, at time of writing this plan, no single criminal legal definition of fraud in England and Wales. There is a generally held view that fraud is causing loss or making a gain at the expense of someone by deception and dishonest means.
- 1.1.2 For the purpose of this plan, **Fraud** is defined as:  
*“the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain”*  
(Fraud Audit Manual, the Audit Commission)
- 1.1.3 These records can include travel claims, petty cash vouchers, or claims for items of service from independent contractors. It should be noted that fraud does not include misappropriation or petty theft without the distortion of financial statements or other records.
- 1.1.4 **Corruption** is defined as:  
*“the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”*  
(Fraud Audit Manual, the Audit Commission)
- 1.1.5 International Standard on Auditing 240 is now concerned with fraud that causes material misstatement through fraudulent financial reporting.

### 1.2 Why do we need to worry about Fraud and Corruption?

- 1.2.1 Research by accountancy firm BDO Stoy Hayward showed that reported fraud in Britain is on the increase. Their findings published in 2005, highlighted that the total amount of reported fraud leapt from £331m in 2003 to £756m in 2004. The spotlight in the last few years has been on fraud committed by senior management, notably through a string of accounting scandals which have helped topple the reputation of major multi-nationals.
- 1.2.2 Standards of financial administration in Derby City Council have always been high. Even though the vast majority of people working in the Council are honest and diligent, the Authority cannot be complacent. Nationally risks are high in certain areas, for example in:
- Items of service claims from independent contractors.
  - Contractual claims.
  - Payroll, overtime and expenses.
  - Supplies of goods and services.
  - The handling of cash.
  - Benefits/Awards.
  - Where budgets have been devolved and freedom is given to managers.

1.2.3 In addition, control and monitoring arrangements often need review and strengthening, for example in:

- The authorisation of expenditure.
- Comparative expenditure and income data.
- The approval of expense claims.

### **1.3 Why Do We Need A Fraud And Corruption Response Plan?**

1.3.1 The prevention of fraud, and the protection of the public purse is in everyone's interest.

1.3.2 It is important that all staff know:

- Where to look for fraud.
- How to prevent it.
- What to do if they come upon fraud.

1.3.3 The Fraud Response Plan addresses these three problems, and in particular it provides information to staff at any level who come upon behaviour either internal or external to the Authority which they think may be fraudulent or corrupt.

1.3.4 The plan helps to define authority levels, responsibilities for action, and reporting lines in the event of a suspected fraud or irregularity. The use of the plan should enable the Authority to:

- Prevent further loss.
- Assign responsibility for investigating the incident.
- Establish and secure evidence necessary for criminal and disciplinary action.
- Establish circumstances in which external specialists should be involved.
- Keep all staff with a need to know suitably informed about the incident and the Council's response.
- Inform the police.
- Establish lines of communication with the police.
- Recover losses.
- Punish the culprits.
- Review the reasons for the incident, the measures taken to prevent a recurrence, and any action needed to strengthen future responses to fraud.

1.3.5 The Fraud Response Plan details:

- What to do if you, or any member of staff, comes upon behaviour, or finds documents, that they think may constitute fraud.
- Advises on fraud awareness, and what to look for.
- Gives practical advice on how to prevent fraud.

- Explains how the Fraud Response Plan fits into the overall Authority approach on probity and policies.

- 1.3.6 If you have any concerns about fraud whatsoever, do talk to your line manager. Alternatively, you may wish to talk to the Head of Audit and Risk Management. You may be concerned about the behaviour of a member of staff, in which case you may prefer to go to your Human Resources Officer who, if fraud or corruption is a possibility, will then involve the Head of Audit and Risk Management.
- 1.3.7 It is important that you do not try to handle the problem yourself, without expert advice and assistance. A badly managed investigation may do more harm than good and there are a number of internal and external processes which have to be followed to yield a satisfactory conclusion.

## **2. Fraud and Corruption – Investigation Process**

### **2.1 Introduction**

- 2.1.1 Suspicion of fraud, corruption or irregularity may be raised through a number of means, including the following:
- Requirement on all staff under financial procedure rules to report fraud, corruption or irregularity.
  - The Confidential Reporting Code (whistle-blowing policy).
  - Planned audit work.
  - Operation of proper procedures.
- 2.1.2 There are a number of facets to the management of a suspected case of fraud, which may involve officers from a number of disciplines, including audit, finance, human resources, and police. Additionally there are a number of specific legislative requirements. Therefore, it is vitally important that the response plan is followed by all concerned in order to ensure that the situation is handled professionally and to safeguard against the case being compromised.
- 2.1.3 Once fraud or corruption is suspected, there are four immediate issues to be addressed:
- The proper internal investigation of the matter.
  - What action, if any, should be taken in relation to the officer concerned.
  - The facilitation and management of the investigation; and subsequently.
  - Whether to involve the police and if so at what stage.
- 2.1.4 It is important that all investigations are conducted promptly.

### **2.2 Requirements of the Council's Financial Procedure Rules**

- 2.2.1 Financial Procedure Rule G6 requires the Corporate Director – Resources and Housing:

*To investigate promptly any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources identified by or notified to the Corporate Director of Resources and Housing and to report to the Chief Executive and the Corporate Director of Corporate and Adult Social Services who will consider any legal proceedings and disciplinary action in consultation with the appropriate Chief Officers.*

2.2.2 Financial Procedure Rule G12 requires Chief Officers:

*To notify the Corporate Director of Resources and Housing immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources. Pending investigation and reporting, Chief Officers should take all necessary steps to prevent further loss and to secure records and documentation against removals or alteration.*

2.2.3 The relevant Chief Officer will then determine, after consultation with all appropriate officers, what action should be taken. This could be the resolution of the issue within the department, or a full investigation carried out by Audit and Risk Management. An Investigating Officer must be appointed by the Chief Officer.

## 2.3 Initial Action

2.3.1 If you have any suspicions whatsoever that a fraud is taking or has taken place, then the first step is to formally raise this concern. Normally this should be raised with your line manager or Chief Officer. If the suspect is your line manager, you may wish to discuss it with another senior manager in your department or talk to your Chief Officer. Alternatively, you may wish to go directly to the Head of Audit and Risk Management, to any internal auditor or your HR Officer. Any of these alternatives are acceptable. Whichever path you choose, and this will depend on the scale of the problem and whom you as an individual feel most comfortable talking to, **do this immediately**. Do not try to solve the problem yourself. At this stage, do not inform the police.

2.3.2 You should avoid discussing your suspicions with anyone other than the officer with whom you formally raised the issue.

2.3.3 The officer that you raised the issue with should ensure that the matter is reported confidentially to the Corporate Director – Resources and Housing and the Head of Audit and Risk Management.

2.3.4 Care should be taken, by both the officer who suspects fraud, and the officer to whom this suspicion is reported, to retain any evidence and make immediate note of the issues and concerns. All records relating to the issue under investigation should be secured as soon as suspicions arise to ensure they are not destroyed or amended.

2.3.5 Do not investigate or interview staff (or private contractors and partnering organisations) unless authorised to do so by your Chief Officer.

2.3.6 Investigations and interviews should not take place without first consulting with the Head of Audit and Risk Management. He will advise you on the best course of action to take and whether Audit and Risk Management needs to be involved in the investigation.

- 2.3.7 The requirements of the Criminal Procedure and Investigations Act 1996 will apply to any interviews, so it is vital that any staff who conduct interviews are aware of these requirements to ensure that the investigation is not jeopardised. If you are in a position where you must interview staff, it is not necessary to continue to question an individual beyond the point where it becomes evident that there are grounds to suspect him/her of an offence. To proceed beyond this stage requires a formal caution before questions can be asked for the purpose of obtaining evidence, which may be given to a court in a prosecution. The exact wording of the caution is as follows:  
*“You do not have to say anything but it may harm your defence if you do not mention when questioned something which you later rely on in court. Anything you do say may be given in evidence”.*
- 2.3.8 Where in accordance with the appropriate disciplinary procedure a member of staff is to be suspended pending investigation, secure his/her desk, filing cabinets etc., and retrieve all office keys etc. so as to ensure further access is denied.
- 2.3.9 Any initial concerns and discussions you may have will be treated sensitively and in complete confidence, and you must not be afraid to raise them. There may be a perfectly good reason for whatever you are concerned about. If this proves to be the case, then no further action will be needed and at least your concern will have been aired.
- 2.3.10 Staff raising concerns in good faith are protected by the provisions of the Public Interest Disclosure Act 1998. This is covered in more detail in the Confidential Reporting Code, which forms part of the Council’s Constitution and is available on the intranet.

## **2.4 Management Process**

- 2.4.1 The process must be co-ordinated by an Investigating Officer or if Audit and Risk Management are wholly carrying out the investigation, by the Head of Audit and Risk Management.
- 2.4.2 There are three distinct aspects that will need to be managed:
- Issues concerning members of staff or independent contractors.
  - The actual investigation.
  - The external environment i.e. the media.

## **2.5 Use of Surveillance during the Investigation**

- 2.5.1 The Regulation of Investigatory Powers Act 2000 (RIPA) imposes certain conditions should surveillance be necessary.
- 2.5.2 The Act covers:
- Interception of Communications.
  - Surveillance and covert Human Intelligence Sources (informers).
  - Directed Surveillance.
  - Intrusive Surveillance.



- The conduct and use of covert Human Intelligence sources.
- Investigation of Electronic Data protected by Encryption.

2.5.3 Surveillance should not be carried out unless authorised by a nominated senior officer in the department.

2.5.4 Surveillance has to be justified in accordance with the conventions of the Human Rights Act 1999:

- The grounds on which the authority is sought.
- Consideration of why directed surveillance is proportionate to what it seeks to achieve.
- The identity or identities, where known, of those to be the subject of directed surveillance.
- Any potential collateral intrusion (the impact on third parties).
- Details of the action authorised.
- Details of the investigation or operation.
- The likelihood of acquiring any confidential material.

## **2.6 Issues Concerning Staff Members**

2.6.1 Throughout the investigation, your nominated HR Officer will provide advice to all parties, including the service managers, on any issue concerning staff.

2.6.2 It should be noted, however, that the Council's Disciplinary and Dismissal Procedure is very clear regarding the standards of behaviour expected of employees. The Disciplinary and Dismissal Procedure also gives examples of disciplinary action that may be taken in the event of those rules being broken. Officers should also be familiar with the Staff Code of Conduct, which is included in the Constitution.

2.6.3 Examples of behaviour that could lead to disciplinary action include:

- Theft and unauthorised borrowing (that includes theft of intellectual property).
- Fraud, including deliberate falsification of payment, travel claims, time or financial records.
- Breaches of confidentiality regarding information.
- Failure to declare a direct pecuniary or otherwise conflicting interest.

2.6.4 In addition, the category of gross misconduct for which summary dismissal applies if proven include:

- Failure to inform an appropriate manager about fraud and impropriety of which you are aware.
- Misuse of confidential information.
- Failure to declare a personal or prejudicial interest in a contract and making private gain as a result.

- Private activities which bring the Council into disrepute.
- Preferential treatment of contractors or clients in return for gifts and hospitality.
- Use of authority equipment or facilities for private gain.

2.6.5 The attention of all staff must also therefore be drawn to the Disciplinary and Dismissal Procedure. This procedure is available on the Council's intranet site.

2.6.6 It is likely that staff who are being investigated under suspicion of fraud, corruption or irregularity will be **suspended immediately**. Any suspensions, however, must be carried out by the appropriate Service Manager who is authorised to make that decision. Any decisions regarding staff must be made in accordance with Council's procedures and policies.

2.6.7 Because any investigation about fraud will invariably focus on the actions of individual members of staff, **it is important that the relevant Head of Human Resources is involved in any decision concerning staff**. This may be delegated by the Head of HR to a nominated HR Officer.

2.6.8 The Head of HR or nominated HR Officer will advise on issues such as:

- Liaison with Trade Unions.
- Management of staff, suspended under suspicion, but who are subsequently reinstated.
- Provision of references to prospective employers for staff who have been investigated.
- Dismissal of staff found guilty.

## 2.7 Managing the Investigation

2.7.1 Provided that the Head of Audit and Risk Management is satisfied that sufficient concern or evidence exists to indicate that a fraud may have been committed, the Investigating Officer will manage the investigation. It is probable that the investigation will be performed by internal audit staff on behalf of the Investigating Officer. However, there could be circumstances where the assistance of the external auditors may be requested, or a member of staff with key skills.

2.7.2 The Head of Audit and Risk Management has contacts within Derbyshire Fraud Squad who can be consulted at an early stage to provide informal advice on the conduct of the investigation.

2.7.3 The Investigating Officer will agree the terms of reference, its scope of operations and an initial time allocation with specific monitoring points.

2.7.4 Where Audit and Risk Management performs the investigation, it will be carried out in accordance with best practice as laid down in the Internal Audit Code of Practice and International Standards of Auditing. The Head of Audit and Risk Management will report back to the Investigating Officer at agreed points during the investigation or earlier, should the results of the investigation dictate. Decisions will need to be made regarding:

- Involvement of the police.
- Action to be taken (if any) against the suspected perpetrator.
- Communications with external bodies.
- Proposed action regarding recovery of losses.
- The level of any additional routine or ad hoc investigations required in related areas.
- Producing and issuing of reports.

## **2.8 Contacting/Involving Outside Agencies**

- 2.8.1 Dependent on the size and nature of the fraud and the extent of the investigation, the Head of Audit and Risk Management will contact the Corporate Director of Corporate and Adult Social Services to consider whether to involve the police. The decision will also need to be taken as to the involvement of the Leader of the Council/ relevant Cabinet Member/ Chair of Audit and Accounts Committee.
- 2.8.2 Individuals involved in the investigation must not take decisions alone to involve external organisations. These decisions must lie with the Head of Audit and Risk Management since any ill-thought-out or spontaneous comments/acts may jeopardise the whole investigation.
- 2.8.3 The Authority has a procedure for managing external communications i.e with the media, and this work must always be carried out in conjunction with the Head of Communications.

## **3. Fraud and Corruption - Detection and Awareness**

### **3.1 Introduction**

- 3.1.1 This section aims to give practical advice and information to managers who are likely to be responsible for areas where fraud or corruption may occur. It gives hints regarding what signs to look for which indicate that fraud or corruption may exist, provides specific examples of frauds that have taken place and provides guidance as to what action to take if fraud is suspected.

### **3.2 Where Might Fraud Happen?**

- 3.2.1 Quite simply, fraud can happen wherever staff, partnering organisations or independent contractors complete official documentation and can take financial advantage of the Authority. The risk of fraud is enhanced where staff or contractors are in positions of trust or responsibility and are not checked or subjected to effective monitoring or validation. Consequently, the following areas are particularly susceptible to fraud:
- Claims from partnering organisation or independent contractors for payment.
  - Contracts.
  - Travel and expense claims.
  - Cash receipts/petty cash.

- Payroll.
- Ordering (for example, unauthorised order or falsification of order).
- Stocks and assets (especially, portable/attractive items).

### 3.3 Examples of Fraud

#### 3.3.1 ***Claims for Items of Service payments:***

- Claiming for services not performed.
- Claiming for a higher level of service than that performed.
- Duplicate claim for service previously paid for.

#### 3.3.2 ***Contracts:***

- Falsified contractual claims for delays in contract work.
- Irregularities in tendering.
- Claims for work not performed.
- Bogus invoices submitted.

#### 3.3.3 ***Travel claims:***

This is a most difficult area to control. Due to staff travelling alone and the volume of journeys and numbers of staff claiming, it is extremely difficult for management to check and validate the claims being made. The most common frauds in this area are:

- False journeys claimed.
- Mileages inflated.
- Unnecessary journeys undertaken.
- 2 officers claim for a journey taken together.
- Claiming first class travel but taking second class.
- Hire of car not used for official purposes.

#### 3.3.4 ***Expense claims:***

There are numerous claims that can be made, such as training expenses, removal expenses, subsistence claims etc. The examples of fraud in this area generally fall into the following categories:

- False or inflated claims made.
- Claim submitted to the Authority and a third party.
- Excessive/inappropriate expenses claimed.

#### 3.3.5 ***Cash receipts:***

Cash can be collected by staff in a variety of situations and is a high-risk area for obvious reasons. The main problems are:

- Accepting cash without receipting or declaring it.

- Altering documentation to disguise the theft of cash.
- Teeming and lading (i.e. substituting cheques received, but not recorded, for cash received).

#### 3.3.6 **Petty cash:**

Petty cash is usually held in a limited number of authorised locations at a specified level. The responsibility for managing the “float” is usually vested in one person, but the following problems can arise:

- Reimbursement sought for receipted, but inappropriate expenditure.
- Vouchers/receipts submitted, no expenditure made.
- Borrowing from fund.

There are some large imprest accounts held at Council establishments.

#### 3.3.7 **Payroll:**

The major payroll frauds are most likely to occur with respect to new starters and with leavers. However, some fraud areas exist:

- Erroneous or “ghost” employees introduced onto the payroll, the salary being paid to the perpetrator.
- A leaver not being taken off the payroll and the salary payment being diverted to the perpetrator.
- Hours worked over-stated to take advantage of flexi-time or over-time arrangements.
- Claiming for work not performed.
- Receiving payment from another organisation during normal working hours when paid by Derby City Council.

#### 3.3.8 **Ordering:**

This is an area that is open to corruption as well as fraud, but the number of employees in a position to commit an offence in this area is more limited than in some of the earlier examples. However, fraud can also be committed by suppliers.

- Goods ordered for personal use or from a specific supplier in return for some form of benefit.
- Goods ordered bear no resemblance to goods received.
- Goods ordered from a relative’s or friend’s business.
- Accepting a lower number of items than ordered, but certifying an invoice for the higher number.
- Creating/certifying false invoices, for which no order has been raised (internally or externally generated).
- Generating payments through cheque requisition voucher for services not received.

#### 3.3.9 **Stocks and assets:**

Misuse, theft and fraud in this area are not unusual. The most obvious and

common risk area is stationery, however - staff come into contact with a variety of stocks and assets, which, if not properly controlled, will be subject to losses due to fraud and theft.

A further problem is the use of the Authority's assets for an individual's personal reasons, e.g. using a personal computer, fax, telephone, mobile phone etc. for running a private business or for personal use.

**NB These examples do not represent a comprehensive list of potential frauds.**

### **3.4 How to Look for Fraud**

3.4.1 All managers should ensure that internal controls are in place to prevent and detect fraud and error. The types of controls available to the manager are detailed in Section 4. However, as stated earlier, fraud often involves the falsification of records. Therefore, managers need to be aware of the possibility of fraud when certifying or authorising claim forms, documents etc. Issues that may give rise to suspicions are:

- Documents that have been altered, correcting fluid used thereon, or different pens and different handwriting.
- Claims that cannot be checked, particularly if prior authorisation was not given or supporting papers are inadequate.
- Strange trends (use comparisons and reasonableness).
- Confused, illegible text and missing details.
- Delays in documentation completion or submission.
- Use of numerous cost centres to code expenditure.
- No vouchers or receipts to support claims.
- Large payments where no VAT number quoted.
- Contact address has no permanency – mobile phone number quoted, no address for correspondence.
- Payments are made to an offshore bank.
- Invoices that quote a P.O. number, rather than a specified address.

3.4.2 There are also a number of indications of a staff member being in a situation whereby they could be acting fraudulently. Managers may need to be concerned where staff are:

- Living beyond their means (lifestyle - house, car, holidays, clothes).
- Under financial pressure (possibly caused by gambling, overextension of credit etc).
- Exhibiting stress, or behaviour which causes concern.
- Not taking annual leave.
- Solely responsible for a "risk" area and/or possibly refusal to allow another officer to be involved in their duties.
- Attracting complaints from members of the public.

- Having inappropriate discussions with other partnering organisations or independent contractors.

## **4. How to Prevent Fraud**

### **4.1. Introduction**

- 4.1.1 The Anti-Fraud and Corruption Strategy concentrates on prevention. The Council therefore needs to maintain a sound and effective system of internal control. This can be strengthened by specific measures, including denial of opportunity, effective leadership, auditing, response to fraud and employee screening.

### **4.2 Internal Control Systems**

- 4.2.1 Whilst it is impossible to create a 100% fraud proof system, managers must ensure that the systems they operate include a reasonable number of effective controls designed to detect and prevent fraud and error. The actions and controls managers should take/consider are as follows:
- Document procedures and controls and train all staff in their use.
  - Ensure staff are aware of all relevant guidelines and policies, and check compliance with these procedures.
  - Separate duties between staff and consider staff rotation. Avoid a single employee being solely responsible for the initiation through to the completion of a transaction.
  - Introduce adequate “internal check”. Most simply this involves an independent officer checking the work/calculations/documentation prepared by the initiating officer.
  - Review budget statements and other management information, and follow up variances.
  - Ensure expenses to be supported by appropriate receipts.
  - Ensure the prior documented approval of expense generating courses, visits etc.
  - Cross out the uncompleted part of a claim form, thereby making the addition of further expenses after approval difficult.
  - Minimise cash holdings. Bank cash/cheques regularly, at least weekly, possibly more frequently depending on the value and the risk.
  - Use trend analysis.
  - Ensure adequate monitoring of high-risk areas.
  - Ensure that staff take their holidays.
  - Ensure orders over a certain level are signed by a designated officer.
  - Monitor and enforce appropriate log in and password controls.

### **4.3 Denial of Opportunity**

- 4.3.1 Fraud can be minimised through carefully designed and consistently operated management procedures, which deny opportunities for fraud. Staff should always receive training in the operation of these systems.
- 4.3.2 The classic way to guard against fraud in financial systems is segregation of duties, so that no individual has undue management of payments, income or assets.
- 4.3.3 The Council should prevent the possible misuse of information technology through managing the physical access to terminals, and protecting systems with electronic access restrictions.

### **4.4 Leadership**

- 4.4.1 Key determinants of the standards of behaviour in an organisation will be the standards observed at the top, and the policies and approach to their enforcement promoted from the top. The culture within the Authority will be influenced by the apparent behaviour of members and senior managers.
- 4.4.2 Members and staff should therefore ensure that their behaviour is always demonstrably selfless and in the best interests of the Council.
- 4.4.3 Members and staff should ensure that they do not breach or appear to circumvent prescribed control procedures.
- 4.4.4 Members and staff should ensure that they follow the guidance as included in the respective Codes of Conduct.

### **4.5 The Role of Internal Audit**

- 4.5.1 When new systems are being designed or existing systems are to be modified, Audit and Risk Management will advise management on building in ways of preventing or detecting fraud.
- 4.5.2 The risk of fraud is a factor taken into account when the annual Internal Audit Plan is prepared.

### **4.6 Response to Fraud**

- 4.6.1 Prosecution can be a particularly effective deterrent because of the risk of a custodial sentence and a criminal record. However, the threat of prosecution only deters if the threat is real.

### **4.7 Screening of New Starters**

- 4.7.1 Potential new members of staff must be screened before appointment, particularly for posts with financial responsibility. For example:
  - References must cover a reasonable, continuous period; and any gaps should be explained.
  - An official employer's reference must be obtained.



- Doubts about the contents of the reference must be resolved before confirming the appointment. If this is done by telephone, a written record of the discussion should be kept to comply with employment law.
- Essential qualifications must be checked before making an offer of employment (for example by requiring original certificates at the interview).

4.7.2 Recruitment procedures must require applicants to declare any connections with existing members and staff. Those involved in the recruitment process must similarly be required to declare such connections.

## **5. The Council's Policies and Guidelines**

### **5.1 Where does the Fraud Response Plan fit in?**

5.1.1 The Authority has many policies and procedures, which are designed to regulate behaviour, and ensure that systems (particularly financial) are in place.

5.1.2 It is important that all staff are aware of these policies and procedures, and of their content. Copies of the most important documents in respect of fraud and corruption must be issued to all senior managers and staff involved in financial procedures. These are:

- Financial Procedure Rules (Financial Regulations).
- Contracts Procedures Rules.
- Code of Conduct for members and officers.
- Anti-Fraud and Corruption Strategy.

5.1.3 Staff and Members should also be aware of:

- Grievance Procedures.
- Disciplinary and Dismissal Procedures.
- Confidential Reporting Code (Whistle-blowing Policy).
- Anti-Money Laundering Policy.

5.1.4 A full copy of the Constitution which includes Financial Procedure Rules, Contracts Procedures Rules, Members' and Officers' Codes of Conduct and the Confidential Reporting Code is available to view on the Council's intranet site.

5.1.5 The Council has an overall approach to ensuring that fraud and corruption is minimised and that probity is upheld. This includes, in addition to the above:

- Effective systems and controls which are monitored by both Audit and Risk Management and external audit.
- An environment of openness and trust.
- The Anti-Fraud and Corruption Strategy.

- 5.1.6 Audit and Risk Management assesses risk, review procedures, and carries out specific tests to detect fraud and error and also strengthen the Council's preventative arrangements.

## **5.2 Constitution**

- 5.2.1 The Council works within a statutory framework, and in accordance with the highest standards of corporate governance. Therefore, it is necessary to lay down rules which all councillors and employees **must** follow when acting on behalf of the Council.

## **5.3 Codes of Conduct**

- 5.3.1 The Code is summarised here, but it is very important that all members and staff are aware of the content.
- 5.3.2 People who work in the public sector must be impartial and honest in the conduct of their business. It is therefore the responsibility of everyone who works for the Authority to ensure that they are not placed in a position where there is a risk of conflict between personal interests and Authority duties. The Code clearly states the duties of staff and offers guidance on how to avoid risk.
- 5.3.3 The key points of the Code are:

- *Acceptance of gifts*

Staff must not accept gifts in any circumstances, although small gifts of low value (such as diaries or tokens of gratitude) from a member of the public need not necessarily be refused. If in doubt, consult Head of Audit and Risk Management.

- *Hospitality*

Modest hospitality, e.g. a lunch in the course of a working visit, may be accepted, provided it is similar in scale to that which the Authority may offer. Such hospitality must be recorded in a register in accordance with the corporate procedure. Other offers of hospitality or entertainment must be refused.

- *Declaration of Interests*

You must declare in writing any financial interest or relationship you have which may affect the Council's policies and decisions. Examples include a close relative or partner has a financial interest in an aspect of the Council's purchasing procedures with provides the Council with goods or services. Officers should not only avoid the risk of conflicts between their public duties and their personal or private interests but should avoid situations where such conflicts might be perceived by the public.

- *Preferential treatment in private transactions*

Staff must not seek preferential rates for private transactions with companies with whom they deal on behalf of the Council.

- *Contracts*

Staff who deal with suppliers and contractors, and in particular, those who sign or place orders must adhere to Contracts Procedures Rules.

- *Outside employment*

Employees must not engage in outside employment, which may conflict with or be detrimental to their work.

- *Commercial sponsorship*

Acceptance of commercial sponsorship by staff for attendance on courses and conferences may be acceptable, but permission must be sought from the relevant manager and/or Chief Officer.

- *Confidential information*

Staff must not disclose any confidential information, which could prejudice the interests of the Council.

## **6. Confidential Reporting Code (Whistle-Blowing Policy)**

### **6.1 Introduction**

6.1.1 At one time or another staff may have concerns about what is happening at work, for example, concerns about:

- Conduct which is an offence or a breach of the law.
- Health and safety risks, including risks to the public as well as other employees.
- Damage to the environment.
- The unauthorised use of public funds.
- Possible fraud and corruption.
- Other unethical conduct.
- Homophobic, racial, religious, sexual or physical abuse of clients, staff and members.
- Conduct which makes staff feel uncomfortable in terms of known standards, their experience or the standards they believe the Council subscribes to.
- Conduct which is against the Council's Financial Procedure Rules or Contracts Procedures Rules.

6.1.2 Staff may be worried about raising such issues, feeling that to do so would be disloyal to colleagues, managers or to the organisation.

6.1.3 The Confidential Reporting Code is included in the Council's Constitution, and gives guidance to staff who wish to raise issues, and line managers with whom such issues are raised. The Constitution can be viewed on the intranet.

6.1.4 This policy provides staff with a mechanism to raise legitimate concerns they have about issues of potential malpractice in the work place. It offers staff confidentiality in raising such concerns.

6.1.5 The Public Interest Disclosure Act 1998 sets out to provide a simple framework to promote responsible whistle blowing. The Act provides strong and clear protection for workers who raise concerns about malpractice internally, and, where they have good reason for doing so, externally.

- 6.1.6 Concerns raised under the Confidential Reporting Code are distinct from complaints or issues raised through the grievance procedure. Under a whistle-blowing policy, an employee raises a matter so that others may investigate it; it is not for the employee to prove the case.

## **7. Anti-Money Laundering Policy**

### **7.1 Introduction**

- 7.1.1 There are several Acts of Parliament and the Financial Services Authority (FSA) has also made provisions relating to money laundering, with the main legislation being contained in the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003 (which contain provisions to implement the Second EU Money Laundering Directive).
- 7.1.2 Detailed money laundering regulations came into effect on 1st March 2004 under the Money Laundering Regulations 2003, Statutory Instrument (SI) 2003 No. 3075, and this Statutory Instrument, the Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and the Proceeds of Crime Act 2002 cover the main compliance requirements.
- 7.1.3 The key requirements of this legislation cover an area wider than the fairly narrow treasury management function, including possessing, or in any way dealing with, or concealing, the proceeds of any crime.
- 7.1.4 Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2003, the Council and its officers are subject to the provisions of the Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and the Proceeds of Crime Act 2002.
- 7.1.5 Furthermore, the Council would not wish to be used by money launderers and proposes to operate procedures intended to deter and forestall this.
- 7.1.6 The Council's Anti-Money Laundering Policy is accompanied by a set of guidance notes for staff. These guidance notes detail the process staff must follow if they suspect that money laundering may be evident.
- 7.1.7 The Council has appointed a Money Laundering Reporting Officer (MLRO). This is the Corporate Director – Resources and Housing.