



## **Anti-Fraud Update – Recent Publications**

### **SUMMARY**

- 1.1 This report seeks to inform the Committee on the most recent Anti-Fraud publications.

### **RECOMMENDATION**

- 2.1 To support and approve the activities which will contribute to the protection and detection of fraud at the Council.

### **REASONS FOR RECOMMENDATION**

- 3.1 To ensure activities contribute to the mitigation of the risk of fraud committed against the Council.
- 3.2 The Audit and Accounts Committee is responsible for considering the council's arrangements for corporate governance and approving necessary actions to ensure compliance with best practice.

### **SUPPORTING INFORMATION**

- 4.1 The prevention of fraud is a key activity which will protect the assets and reputation of the Council. The Chair of Audit and Accounts Committee is the Council's "Anti-Fraud Champion", while responsibility for monitoring and reviewing the Council's anti-fraud and corruption measures is delegated to this Committee. To assist with these responsibilities and to be effective in reducing the threat of fraud, an awareness of recent developments in this area is essential. Therefore it is intended to bring regular updates on publications, reports and information received to this Committee.
- 4.2 The following paragraphs provide a synopsis of the key publications :
- Corruption in UK Local Government – The Mounting Risks - Published October 2013 by Transparency International UK**
- 4.3 This report expands on the findings of a previous Transparency International report which found a considerable degree of public concern about corruption in local government, despite there being little evidence of widespread corruption taking place, other than in some high profile media reports.

- 4.4 However, as the report points out “Whether current levels are high or low, public concern is high and this matters in itself. A relatively few cases can have high impact, and this affects trust in local government and in politics more generally.” The aim of the report was to “analyse the institutional robustness and integrity of local government, looking at the safeguards against corruption and the rapid and substantial changes to this regime instituted by the current UK Government”.
- 4.5 The report is positive about the high standards of conduct displayed by the majority of local councillors and council officers but does express concern over the opportunities for corruption opened by recent changes to local government, suggesting that corruption is likely to increase and that reporting will reduce. Whilst most of the report relates to highlighting changes made by Central Government, the implications, in terms of the increased risk these present to local government indicate that greater vigilance in the highlighted areas is advised. The report identifies four areas as showing a marked decline in the robustness of local government to resisting corruption and six areas of vulnerability to corruption:

Areas of increased corruption risk as a result of recent changes:

1. Erosion of the audit safeguard - abolition of the Audit Commission
2. Erosion of the audit safeguard - role of the External Auditor under the new arrangements
3. Erosion of the audit safeguard - effect of budget cuts
4. The weakening of Elected member oversight – changed statutory requirements

Areas of vulnerability to corruption:

1. Public procurement at the needs assessment stage, the bid design stage, the award stage or the contract implementation stage
2. Control and accountability over outsourced services
3. The revolving door of personnel between local authorities and private companies bidding to provide services
4. Planning discretion and influence regarding “permission to build” decisions, “change of use” decisions, failure to enforce section 106 agreements, the conflict of interest where councils make planning decisions about property they own
5. Collusion in housing fraud or deliberately ineffective monitoring of housing fraud
6. Manipulation of electoral registration

More details on the issues outlined in this paragraph are contained in Appendix 2.

- 4.6 The report makes 22 separate recommendations to help mitigate these risks which are summarised as:

“The Government needs to review the changes that are taking place in local government to ensure that they do not inadvertently create an enabling environment for corruption. This will require – at a minimum – a corruption risk assessment, strengthen whistleblowing systems, enhanced audit procedures, extension of the Nolan Principles and Freedom of Information obligations to private sector services contracted out by local authorities, re-introduction of a common ethical standard and a willingness to adjust or amend other recent changes if that should prove necessary.”

**Pre-employment checks: an employer’s guide - December 2013 - Chartered Institute of Personnel and Development**

- 4.7 This guidance was issued in the light of recent developments, namely:

- the increasing public recognition of the need to adopt practices that are both legal and ethical
- the growing influence of social media, particularly the legal implications of looking at candidates’ online activity or profiles
- the growth of outsourcing leading to a lack of clarity as to which organisation is responsible for conducting checks
- the reluctance of employers to make negative comments in references for fear of legal challenge
- poor recruitment practices may be unfair to individual applicants, for example by discriminating against members of particular groups or by giving weight to inaccurate or misleading information

- 4.8 Guidance is given on the need to establish what risks are being addressed when setting up checks, the responsibilities of employers when dealing with adverse information relating to a candidate, the legal and ethical approach to using social media to support recruitment, the correct handling of references, and the role of outsourcing and employment agencies. The guidance also has an appendix which outlines the key legal issues relating to pre-employment checks.

**Fraudscape bulletin – August 2013 - CIFAS**

- 4.9 This document highlighted frauds reported to CIFAS during the period 1 January to 30 June 2013. This showed a total of 113,980 reported frauds, which is a 3% drop in reported frauds on the previous period.
- 4.10 CIFAS collates reports from its members. To qualify for reference to CIFAS the member organisation has to have submitted a complaint to the Police which leads to a prosecution, so the bulletin only includes those frauds which have a clearly identifiable culprit.

- 4.11 Within the 113,980 cases, 52% related to identity fraud (either entirely fictitious identity or theft of identity from an innocent victim), 18% to application fraud (applications with material falsehoods or fake supporting documents), 15% misuse of facility fraud (when an account is used fraudulently et paying in an altered cheque or issuing a cheque knowing that it will bounce) and 14% facility takeover fraud (fraudulent operation of someone else's account)

### **Electoral Fraud in the UK – January 2013 – the Electoral Commission**

- 4.12 This is the final report from a review of electoral vulnerabilities in the UK. The aim was to identify measures to improve confidence in the security of the electoral processes whilst maintaining accessibility. The report identifies specific areas (including Derby) where there is a higher risk of allegations of electoral fraud. It makes three recommendations:
- that continued urgent action is required to tackle the risk of electoral fraud in higher risk areas – from EROs, candidates and Police
  - that votes should be required to show proof of their identity in polling stations – a report with detailed proposals for a proof of identity scheme is to be published by the end of 2014
  - that restrictions be applied to the involvement of campaigners in the absent vote administration process.

### **CIPFA Better Governance Forum**

- 4.13 The Better Governance Forum produces a weekly newsletter, giving links to recent publications, presentation notes from events and recent cases of interest. In their year-end round-up, they outlined the specific Anti-Fraud themes to be followed by CIPFA in 2014. These are:
- improving top-level buy-in and leadership
  - focus on prevention and resilience
  - procurement fraud
  - developing corporate counter-fraud capability

4.14 During 2014, we can expect CIPFA to produce:

- Managing the Risk of Fraud – the release of the third iteration of the “Red Book”
- A new counter-fraud centre of excellence
- Building on the work of the outgoing Audit Commission and Fighting Fraud Locally
- Updated existing material and developing new tools

4.15 The forum also operates workshops and seminars, publishing the presentation notes for members. For example:-

November 2013 – Identity Fraud Risks and Defences

This seminar covered recent developments in the way that fraudsters commit identity theft and identity fraud. Corporate identity fraud was covered in one seminar, giving details of potential threats to businesses and Councils. Another session related to interviewing techniques and a representative from Ealing Council spoke about enhanced vetting which they apply to a specified range of posts within their organisation.

## OTHER OPTIONS CONSIDERED

5.1 N/A

**This report has been approved by the following officers:**

<b>Legal officer</b>	n/a
<b>Financial officer</b>	n/a
<b>Human Resources officer</b>	n/a
<b>Service Director(s)</b>	n/a
<b>Other(s)</b>	n/a

<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	Richard Boneham, Head of Governance and Assurance, 01332 643280 <a href="mailto:richard.boneham@derby.gov.uk">richard.boneham@derby.gov.uk</a> Appendix 1 - Implications Appendix 2 - Areas of increased corruption risk as a result of recent changes
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<b>IMPLICATIONS</b>
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**Financial and Value for Money**

1.1 None directly arising

**Legal**

2.1 None directly arising

**Personnel**

3.1 None directly arising

**Equalities Impact**

4.1 None directly arising

**Health and Safety**

5.1 None directly arising

**Environmental Sustainability**

6.1 None directly arising

**Asset Management**

7.1 None directly arising

**Risk Management**

8.1 The effective management of risk is a core principle of good information governance.

**Corporate objectives and priorities for change**

9.1 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

### Areas of increased corruption risk as a result of recent changes

#### Erosion of the audit safeguard

##### Abolition of the Audit Commission

- the independence of Auditors, both Internal and External, is weakened by the abolition of the Audit Commission which provided support
- no institution with wider powers of public audit to enable criminal investigations now exists
- there is no longer a nationwide collection of fraud and corruption data, which could be used to analyse trends

##### Role of the External Auditor under the new arrangements

- new external audit reports will not be adequately covered by the Freedom of Information Act
- External auditors appointed under the new arrangements may face incentives to avoid undertaking investigations or raising concerns about suspicions of fraud or corruption

##### Effect of budget cuts

- austerity measures may reduce internal capacity to investigate fraud and corruption
- the responsibility for investigating and detecting fraud and corruption may be delegated to lower-level officers

## **The weakening of Elected member oversight - changed statutory requirements**

- audit committees are weakened and may disappear because there is no longer a statutory requirement for an audit committee to be a full committee in its' own right
- no longer a universal code of conduct to provide clarity to members serving on different public authorities and committees
- no longer a requirement for members to declare gifts and hospitality and no legal requirement for either a standards committee or the monitoring officer to check any register of interests on a regular basis
- no longer a statutory requirement for a council to have a standards committee
- no longer any obligatory sanction for members that violate the local codes of conduct, with overreliance on party discipline as a sanction
- the ability of chief executives, financial officers and monitoring officers to hold elected members to account would be compromised by proposals to abolish their statutory employment protection
- some local authorities may struggle to appoint the required independent persons of the appropriate calibre and legitimacy to perform the new role that has been created under the self-regulation system
- the system relies too heavily on the new offence of failing to declare a pecuniary interest – which the authors argue is unenforceable and misses the point that transparency is not sufficient to deter corruption
- since the abolition of Standards for England, there is no longer a national investigations body for misconduct