AUDIT AND GOVERNANCE COMMITTEE

DATE   **21st January 2021**

REPORT OF   **Executive Director for Environment, Economy and Resources**

SUBJECT   **Anti-Fraud and Corruption Strategy**

STATUS   **Open**

CONTRIBUTION TO OUR AIMS

Effective anti-fraud and corruption arrangements support the delivery of the Council's strategic objectives by contributing to effective governance arrangements designed to underpin them.

EXECUTIVE SUMMARY

This report introduces the Council's updated Anti-Fraud and Corruption Strategy. The approval of the revised strategy will provide a clear and consistent message that the risk of fraud and corruption is real, will not be tolerated and is the responsibility of all Council employees to minimise.

It provides a framework for the effective deterrence, detection, investigation and sanction of fraudulent or corrupt activity.

RECOMMENDATIONS

It is recommended that the Committee considers and accepts the Anti-Fraud and Corruption Strategy

REASONS FOR DECISION

The Committee is asked to consider the content of this report as part of their responsibilities for monitoring and reviewing the Council's arrangements in relation to fraud and corruption and to approve the updated Anti-Fraud and Corruption Strategy.

1. BACKGROUND AND ISSUES

The anti-fraud and corruption strategy was last reviewed in October 2017 and was strongly influenced by the 2016-2019 strategy[1] published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre.

In March 2020, CIPFA updated its strategy[2] and in doing so has strengthened its emphasis on strong leadership and governance. The updated Council strategy

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[1] CIPFA Fighting fraud and corruption locally – The local government counter fraud and corruption strategy 2016-2019

[2] CIPFA Fighting fraud and corruption locally – a strategy for the 2020's.

reflects this emphasis and includes a foreword from the Chief Executive and Leader of the Council to make it absolutely clear that fraud and corruption will not be tolerated.

Whilst the strategy has been updated, the general themes remain the same. The risk of fraud has not changed, but new opportunities for fraudsters have arisen, such as exploitation of the Covid 19 pandemic. Therefore, it is now as important as ever to ensure that our response is as robust as possible to protect public funds, through good governance, awareness of the fraud risks, the ability to prevent and detect fraud and to in taking action against those that seek to defraud us.

2.   RISKS AND OPPORTUNITIES

Every pound lost to fraud is a pound that the Council cannot invest in the place and people of North East Lincolnshire. Failure to have an adequate anti-fraud and corruption strategy increases the risk of the Council suffering losses due to fraud.

Effective and co-ordinated anti-fraud arrangements are essential to protect the Council against the loss of resources and reputation, never more so than during the current pandemic to ensure help and support reaches those in need and entitled to it.

3. OTHER OPTIONS CONSIDERED

No other options were considered. The review and updating of the Anti-fraud and Corruption Strategy is essential to ensure the Council's response to the risk of fraud is robust and appropriate.

4.   REPUTATIONAL AND COMMUNICATIONS CONSIDERATIONS

As well as financial loss caused by fraud, there can also be reputational impacts for those organisations which do not manage the risk of fraud effectively.

5.   FINANCIAL CONSIDERATIONS

There is no additional expenditure required as a consequence of this Strategy.

6.   CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

There are no climate change or environmental implications arising from this report.

7.   FINANCIAL IMPLICATIONS

The latest national estimate for fraud losses in Local Government amounts to £7.8bn per year[3]. Therefore, failure to implement this strategy and associated policies and procedures is likely to lead to significant loss to the Council.

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[3] Annual fraud Indicator 2017

6. LEGAL IMPLICATIONS

There are no direct legal implications arising from the report.

7. HUMAN RESOURCES IMPLICATIONS

The Council takes matters in relation to fraud and corruption seriously. Any allegations involving employees are dealt with through the council discipline procedure and where cases are proven appropriate sanctions issued which may include dismissal and/or referral to the Police.

8. WARD IMPLICATIONS

No specific ward implications.

9. BACKGROUND PAPERS

Anti-fraud and corruption strategy (October 2017).
CIPFA Fighting fraud and corruption locally – a strategy for the 2020's.
Annual fraud Indicator 2017

10. CONTACT OFFICER(S)

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EXECUTIVE DIRECTOR FOR ENVIRONMENT, ECONOMY AND RESOURCES

Internal Ref:	NEL AFCS
Review date	January 2023
Version No.	V7.0

Anti-Fraud and Corruption Strategy

Foreword

The public are entitled to expect the council to conduct its affairs with integrity, honesty and openness and demand the highest standards of conduct from those working for and with it. They also expect that the council will safeguard public funds and ensure that they are available and used for their intended purpose. North East Lincolnshire Council's priorities are clear:

'Stronger economy and stronger communities'

To deliver these priorities at a time of financial constraint, we need to maximise the resources available to us. Any fraud against the council takes more money away from services and undermines our ability to achieve our aims.

The message is clear, the Council will not tolerate fraud and corruption.
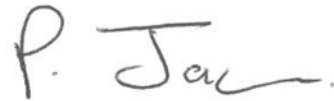
We will take the strongest possible action against those who seek to defraud the Council. This includes our own Councillors, officers, contracting partners and external individuals and organisations. Our desire is to be a model of public probity, affording maximum protection to the funds we administer.

Signed   Signed

Chief Executive   Leader of the Council

Introduction

This Strategy sets out the Council's approach to minimising the risk of fraud and corruption occurring, detecting its possible occurrence, and the actions it takes when fraudulent activity is suspected and identified.

In developing the strategy, the Council has adopted the five key principles included in 'FIGHTING FRAUD AND CORRUPTION LOCALLY -a strategy for the 2020's'[1], published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. These are:

- Govern – having robust anti-fraud arrangements embedded throughout the organisation
- Acknowledge - acknowledging and understanding fraud risk
- Prevent - preventing and detecting fraud
- Pursue - punishing fraudsters and recovering losses
- Protect – Protecting the council from fraud

The benefits of having a co-ordinated and robust approach to anti-fraud and corruption laid out in this strategy include:

- Greater ability to prevent losses due to fraud occurring, by improving the understanding of the risk
- Being more resilient to fraud and more aware of new fraud risks
- Providing support to the national agenda for fighting fraud
- Being able to clearly account for the effectiveness of the Council's counter fraud arrangements to the public, partners and national stakeholders. This will feature as a core element in the Annual Governance Statement
- Providing assurance over counter fraud arrangements
- Ensuring that resources for counter fraud activity are in line with the potential risk
- Providing assurance that fraud risk is being managed.

Govern

Tackling fraud is everyone's business. We are all responsible for ensuring the council does not lose vital funds to fraud.

The message is clear – we will not tolerate fraud and corruption

The Council has a robust framework of procedures and controls which provide the major elements of its anti-fraud and corruption governance arrangements. This strategy is an integral part of a range of policies and procedures that provide a corporate framework to help counter any fraudulent activity. These have been

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[1] Fighting fraud and corruption locally, a strategy for the 2020's was published by CIPFA in March 2020

formulated in line with the appropriate legislative requirements and professional best practice and include:

- Fraud response plan
- Whistleblowing policy
- Anti-bribery policy
- Anti-money laundering policy
- Code of Corporate Governance
- The Constitution including Contract Procedure Rules and Financial Regulations
- Employee code of conduct
- Gift and Hospitality Policy
- Risk Management Policy
- Information Security Policy.

Such an approach supports the delivery of the Council's priorities and the five key high-level outcomes contained in the outcomes framework.

Acknowledge

All organisations are at increasing risk of fraud and corruption. The illegal and hidden nature of fraud makes it hard to measure accurately. To give some idea of the size of the risk, the estimated level of annual fraud loss across local government in 2010 was £0.7bn[2]. In 2016 this figure was estimated at £7.3bn.[3]

Acknowledging this risk is the most important part in developing an appropriate and effective anti-fraud response. Recognising fraud must also incorporate a thorough understanding and knowledge about what the fraud problem is, where it is likely to occur, and the scale of potential losses.

The Council has many of the components for a strong counter fraud response in place including:

- A dedicated, professionally qualified counter fraud team as part of its shared services arrangements for Internal Audit with North Lincolnshire Council to promote awareness of fraud related risks and undertake criminal investigations where necessary to protect public funds
- Control arrangements for key financial systems that are robust, being underpinned by statutory requirements, council financial regulations and scrutiny through internal and external audit
- Identification of fraud risks facing the council

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[2] Annual Fraud Indicator 2010 – National Fraud Authority
[3] Annual Fraud Indicator 2016 – Experian, PKF Littlejohn & University of Portsmouth Centre for Counter Fraud Studies

- An Audit Committee that will review this strategy as part of its responsibility for considering the effectiveness of counter fraud and corruption activities at the council
- Publication of this strategy and of specific fraud initiatives to raise public awareness
- Production of an annual fraud report which is available to the public, which openly acknowledges the fraud risks the Council faces, the types of fraud that have occurred during the year and our response to those risks
- Participation in collaborative counter fraud work with other agencies, through the National Fraud Initiative.
- The use of data matching to identify potential fraud
- Fraud awareness campaigns to raise awareness of fraud, money laundering and bribery within the Council and how to report concerns
- An annual self-assessment of our fraud response based on the checklist provided in the CIPFA, 'Fighting Fraud and Corruption Locally document.
- External audit of our fraud arrangements.

The council recognises that new fraud risks are continually emerging and therefore, we will continually review our arrangements, taking into account the latest guidance available to ensure our counter fraud response is robust.

Prevent

More than ever, preventing losses from occurring in the first place is a crucial strand of a robust counter fraud strategy. The council has well established policies, procedures and processes which incorporate efficient and effective internal controls to safeguard the council's resources. The existence, appropriateness, and effectiveness of which are independently monitored and reported on by the council's Internal Audit team.

The Council will continue to:

- Ensure that anti-fraud controls are considered by management when developing new systems and processes
- Ensure that the testing of the effectiveness of the design and operation of those anti-fraud controls is considered when prioritising internal audit work.
- Conduct proactive exercises into high risk areas.

However, prevention extends beyond making sure that there are appropriate system and process controls in place. It depends on the development of an effective anti-fraud culture that reinforces a zero tolerance to fraud and corruption and deters criminals from committing fraud in the first place. An anti-fraud culture should seek to motivate staff and ensure that they understand the importance of tackling fraud, are able to recognise fraud and abuse and know how and where to report suspicions of fraud.

The Council develops its anti-fraud culture by:

- Making new staff aware of their responsibilities as part of the induction process
- Regularly updating the Council's whistleblowing policy so it takes account of updated national guidance and advice, and publicising these changes
- Publicising its Counter Fraud Strategy and Annual Fraud reports.

No matter how good the Council's preventative measures are, fraud cannot be completely eradicated. To this end, the Council has a robust Fraud Response Plan that provides a framework for the investigation of allegations of fraud.

Additionally, the Council will continue to make use of information and technology to verify and validate transactions, or to uncover potential and actual fraud, including the following:

- Continued participation in the National Fraud Initiative, to investigate potential frauds identified through national data matching
- Development of other data matching techniques to prevent and detect fraud in high risk areas
- Provision of a suite of fraud awareness materials to enable employees to prevent and detect fraud.

Pursue

The Council will take robust and appropriate action to investigate, punish and recover funds from those who seek to defraud it.

We will seek the strongest available sanctions against any member of the public, contractor, member or employee who commit fraud against the Council, its clients or the public purse. This may include prosecution and additionally for employees, disciplinary action. Prosecutions will be considered in line with the Council's prosecution policy.

Where appropriate the Council will also work with other public authorities, including the Police and our insurance providers. We will share information to prevent, detect and investigate acts of fraud against the public purse.

The Council will always seek to recover any funds or assets that have been lost due to fraud and will use all means available to do so under the Council's Debt Recovery Strategy and where appropriate using Proceeds of Crime Act legislation.

The Council will seek to publicise the outcomes of such investigations in the Annual Fraud Report, to provide the public with the assurance that public funds are being protected and to act as a deterrent to those that may consider committing fraud in the future.

Protect

By adopting the principles of govern, acknowledge, prevent and pursue, the council can protect itself from fraud and the harm fraud can cause both to the council and to the residents of North East Lincolnshire.

This strategy will be reviewed bi-annually against best available practice to ensure that the council stays protected. In addition, the Council will assess its counter fraud arrangements against the checklist produced by CIPFA to complement their 2020's strategy and will act to strengthen its arrangements where necessary.

Appendix 1: Definition of terms

As per the Fraud Act 2006, fraud is a criminal offence. Fraud is any action taken by an individual, group or organisation which is designed to facilitate dishonest gain at the expense of (or loss to) the Council, the residents of North East Lincolnshire or the wider national community and can include:

- **Fraud by False Representation**: Dishonestly making a false representation, and intend by making the representation, to make a gain for themselves or another, or cause a loss or expose another to a risk of loss.
- **Fraud by (wrongly) failing to disclose information**: Dishonestly failing to disclose information which they are under a legal duty to disclose, and intend by failing to disclose the information, to make a gain for themselves or another, or cause a loss or expose another to a risk of loss.
- **Fraud by abuse of position**: Occupying a position in which the post holder is expected to safeguard, or not act against, the financial interests of another person, dishonestly abuse that position, and intend by such abuse, to make a gain for themselves or another, or cause a loss or expose another to a risk of loss.

Theft is stealing any property belonging to the council or which has been entrusted to it (i.e. client funds), including cash, equipment, vehicles, data. Theft does not necessarily require fraud to be committed. Theft can also include the stealing of property belonging to our staff or members whilst on council premises.

A person is guilty of theft under the Theft Act 1968 if they 'dishonestly appropriate property belonging to another with the intent of permanently depriving the other of it' or they dishonestly retain a wrongful credit. For example, where they do not report and repay an overpayment of salary or advance.

Corruption is defined as an act done with the intent to give some advantage which is inconsistent with a public servant's official duty and the rights of others. In the public sector it can also be defined as the abuse of power by a public official for private gain. Forms of corruption vary but include bribery, extortion, nepotism, cronyism, embezzlement.

Bribery is defined as the offering, giving, soliciting or acceptance of inducements or reward designed to influence official action or decision making. Under the Bribery Act 2010, organisations are expected to implement anti-bribery measures and both organisations and individuals can face significant penalties for failure to meet these requirements.

Money laundering is the process by which the proceeds of crime are changed so that they appear to come from a legitimate source. Legislation concerning money laundering is included within the Proceeds of Crime Act 2002 (the POCA) and Money Laundering Regulations 2007.

A **Whistleblower** is a person who tells someone in authority about alleged dishonest or illegal activities, including fraud occurring in any public or private organisation.

The Public Interest Disclosure Act 1998 provides legal recourse for an employee raising the concern should they feel they have been treated unfairly as a result of "whistleblowing".

Appendix 2: Roles and Responsibilities

Councillors	• facilitate an anti-fraud and anti-corruption culture • demonstrate a commitment to this strategy and ensure it has the appropriate profile within the Council
Cabinet	• ensure the strategy is effectively implemented across the Council
Audit Committee	• to approve the corporate fraud strategy • to monitor and review the effectiveness of the Council's anti-fraud and corruption arrangements • ensure that there is strong political and executive support for work to counter fraud and corruption • ensure consistency across the Council in the implementation of this strategy
Director Resources and Governance	• ensure that those working to counter fraud and corruption are professionally trained and accredited for their role and attend regular refresher courses to ensure they are up to date with new developments and legislation • ensure that there is a level of financial investment in counter fraud and corruption work that is proportionate to the risk that has been identified. • ensure that reports on investigations include a section on identified policy and system weaknesses that allowed the fraud/ corruption to take place where appropriate
Directors	• ensure the risks of fraud and corruption are identified, recorded on the risk register as required and action plans implemented to reduce the risk to an acceptable level • ensure the anti-fraud and anti-corruption strategy is implemented within their area of responsibility • ensure the risk of fraud and corruption is considered in all new processes
Monitoring Officer	• regularly publicise, and monitor compliance with, expected standards of ethical conduct • ensure that progress in raising standards is communicated to stakeholders • ensure that effective Whistleblowing arrangements are established • ensure registers of interests, gifts & hospitality are maintained • ensure Councillors and officers are fully aware of their obligations in relation to probity • ensure that those working to counter fraud and corruption are undertaking this work in accordance with a clear ethical framework and standards of personal conduct

Audit and Assurance	• support Directors, Assistant Directors and their managers in identifying and mitigating risks for fraud and corruption • promote an anti-fraud culture, including awareness campaigns risk assessments, development of tools to identify potentially fraudulent activity • ensure all allegations are recorded and risk assessed • conduct investigations in line with legislation, standards and rule of conduct • ensure that those carrying out fraud investigations are adequately trained • notify HR & Legal Services (at the outset of investigations into employees • make recommendations where weaknesses are identified and ensure action plans implemented to prevent reoccurrences • undertake proactive exercises into areas where the risk of fraud is greatest • take into account fraud risks when determining the annual audit plan and the content of specific audit assignments
People and Culture (HR)	• ensure that there is an effective propriety checking system (i.e. safe recruitment) implemented by appropriately trained staff in place • ensure employment policies support the anti-fraud and anti-corruption framework • monitor effective and appropriate sanctions are applied in all appropriate cases • ensure that all Human Resources staff are aware of the Fraud Response Plan and the action to take if they suspect fraudulent activity • inform Audit and Assurance at the outset of any conduct investigation
Managers	• ensure all employees are aware of their responsibilities under the anti-fraud and anti-corruption framework • ensure all employees have read the Employee code of conduct and understand their responsibilities • ensure all employees understand the Whistleblowing policy and reporting arrangements • ensure employees are aware of the process for reporting allegations of fraud • ensure accurate and timely reporting of gifts and hospitality
Employees	• understanding of expected behaviour and of their responsibility to report suspected fraud or corruption and the appropriate methods to do so

BACKGROUND INFORMATION	
Document Purpose	To summarise the Council's approach to anti- fraud and corruption, give advice and guidance to all relevant staff on their expected role in countering fraud, and identify what needs to be considered when determining the level of the Council's anti-fraud response
Author	Mark Edwards
Last Review and Publication Date	
Target Audience	Council Wide
Subject	Prevention, detection and response to fraud and corruption
Reference and Version	NEL AFCS v6.1 draft
For Further Copies Email	Mark.Edwards@nelincs.gov.uk
Location of Published Copy	NELC website
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Impact Assessment (inc E&D) done?	Not appropriate
IA Action Plan with Recommendations Produced	Not appropriate