

NORTH YORKSHIRE COUNTY COUNCIL

COUNTER FRAUD STRATEGY

February 2015

Index

Section	Contents
1.0	Introduction
2.0	Policy Framework for preventing Fraud
3.0	Key officers and Corporate Groups
4.0	Culture
5.0	Prevention
6.0	Detection and Investigation
7.0	Recovery of Losses Incurred
8.0	Fraud Awareness and Training
9.0	Conclusions
10.0	Review of Strategy

1.0 INTRODUCTION

1.1 The County Council is committed to maintaining an effective Counter Fraud Strategy which is designed to minimise the risk of fraud and corruption by adopting measures which:-

- encourage fraud prevention
- pro-actively detect fraud, and
- enable cases to be investigated promptly and thoroughly.

1.2 Any fraud committed against the County Council effectively constitutes a theft of taxpayers' money. It is unlawful and deprives the County Council of resources which should be available to provide services to the public. Fraud may also cause reputational damage to the organisation, potentially resulting in a loss of confidence amongst the public or stakeholders, and an adverse effect on staff morale. By putting in place effective measures to counter the risk of fraud and corruption the County Council can reduce losses which impact on service delivery. The County Council therefore expects the highest standard of probity, propriety and conduct from Members, employees and contractors. This includes requiring those concerned to act lawfully and to comply at all times with the County Council's policies, regulations and procedures.

1.3 This Counter Fraud Strategy follows the principles contained in the Code of Practice on Managing the Risk of Fraud and Corruption published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code consists of the following five key principles:

- To acknowledge the responsibility of the governing body for countering fraud and corruption
- To identify the fraud and corruption risks
- To develop an appropriate counter fraud and corruption strategy
- To provide resources to implement the strategy
- To take action in response to fraud and corruption.

1.4 The Strategy is based on a series of interrelated policies and procedures designed to frustrate any attempted fraudulent or corrupt act. These policies and procedures cover:-

- the Counter Fraud culture of the County Council
- prevention arrangements and controls
- fraud awareness and training
- the detection and investigation of suspected fraud and corruption

- the prosecution of individuals suspected of perpetrating fraud and the recovery of losses

1.5 The County Council is subject to a high degree of external scrutiny of its affairs by a variety of bodies including:-

- Local Government Ombudsman
- The Care Quality Commission
- The appointed external auditor
- Ofsted
- the public/service users (through the County Council's Complaints Procedures)
- Central Government Departments
- HM Revenue and Customs

1.6 The Corporate Director – Strategic Resources is the Section 151 officer for the County Council as defined by the Local Government Act 1972. He has an overriding and statutory responsibility to ensure that there are adequate and effective financial procedures in place. He is also responsible for ensuring that the County Council has an effective internal audit function.

1.7 For the purpose of this Strategy the term “fraud” is used broadly to include (but is not limited to):

- any acts which would fall under the definition in the Fraud Act 2006
- anything which would be deemed fraudulent in accordance with the generally held view of fraud as causing loss or making a gain at the expense of someone else by deception and dishonest means
- any act of bribery or corruption including specific offences covered by the Bribery Act 2010
- acts of theft
- any other irregularity which is detrimental to the County Council whether financial or otherwise, or by which someone gains a benefit to which they are not entitled.

1.8 Whilst the County Council has a good record in preventing fraud and corruption, cases do occur which require further investigation. In recent years such cases have included:

- The falsification of financial records by an employee, in order to divert funding to a fraudulent bank account.
- Theft from County Council service users committed by staff employed by external organisations.

- The theft of money belonging to service users whilst they are attending or resident in County Council establishments.
- The theft of cash and/or equipment from County Council establishments.
- An employee not working their contracted hours.
- An employee who benefitted financially by undertaking private work gained through their employment with the County Council.
- Fraudulent invoices submitted to the County Council for payment.
- An attempt to change creditor bank account details, in order to divert payments to a fraudulent bank account.

2.0 **POLICY FRAMEWORK FOR PREVENTING FRAUD**

2.1 This document sets out the County Council's strategic objectives in relation to combating fraud and corruption, and its overall arrangements for preventing and detecting fraud. It forms part of the County Council's overall counter-fraud Policy Framework and should be read in conjunction with the Constitution, the Contract, Financial and Property Procedure Rules, disciplinary policies, Standards of Conduct Procedure for Employees and other related policies and procedures. The Terms of Reference for the Audit Committee specifically include reference to reviewing the effectiveness of anti-fraud and corruption arrangements throughout the County Council. To support the Audit Committee in this role the Corporate Director – Strategic Resources reports on the Policy Framework and level of fraud detected within the County Council each year. This Committee, within its terms of reference, will approve any changes to the counter-fraud policy framework.

2.2 The key documents comprising the counter-fraud Policy Framework are:-

(a) **Counter Fraud Strategy**

This document sets out the Strategy which the County Council has adopted to prevent loss due to fraud and corruption. The County Council will be both proactive in detecting suspected fraud and corruption and will deal effectively with all identified instances of loss. The aim of the Strategy is to align responsibilities and actions with identified fraud risks.

(b) **Whistleblowing Policy**

Whistleblowing remains the most common way that frauds are detected in large organisations such as the County Council. The policy explains how members, employees, contractors and agency staff can raise concerns about suspected fraud and other malpractice in a confidential manner.

(c) **Anti-Money Laundering Policy**

This Policy defines the responsibilities of officers in respect of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007. The Head of Internal Audit is the Money Laundering Reporting Officer for the County Council and the

Monitoring Officer is the Deputy Money Laundering Reporting Officer. This Policy explains how any allegations of such practice will be dealt with.

(d) **Prosecution and Loss Recovery Policy**

This policy determines the circumstances in which the suspected perpetrators of fraud may be prosecuted by the County Council. Before any case can be considered for prosecution, it must meet the evidential and public interest criteria contained in the Code for Crown Prosecutors, the aim of which is to ensure that fairness and consistency is achieved in the decision making process. The policy also explains the actions the County Council may take to recover any losses suffered as a result of fraud.

(e) **Fraud and Loss Risk Assessment**

This is an annual assessment which sets out the fraud risks facing the County Council based on events which have occurred, intelligence of events occurring elsewhere and issues which may represent a potential future threat. The risk assessment is also informed by the County Council's corporate and service risk registers which may highlight specific fraud risks. Its aim is to analyse the fraud risks facing the County Council and then direct internal audit resources to specific areas to help prevent and detect those risks occurring. This Assessment will be reviewed by the Audit Committee on an annual basis and its results fed into the preparation of the annual Audit Plan.

3.0 **KEY OFFICERS AND CORPORATE GROUPS**

3.1 There are a number of officers and Corporate Groups which have a key role in protecting the County Council from fraud / loss. These include:

- the **Management Board (MB)** recognises the threat of fraud and corruption and the harm it can cause to the County Council, its aims and objectives and to its service users. The MB is therefore responsible for promoting a culture within the County Council which is resilient to the threat and which addresses any issues highlighted in the Fraud and Loss Assessment as areas of high risk
- the **Corporate Director – Strategic Resources**, as the Section 151 officer, has a specific legal responsibility to ensure adequate and effective anti-fraud/loss arrangements are in place
- the **Head of Internal Audit, Veritau Ltd (HIA)** is responsible for developing the Counter Fraud Strategy of the County Council, including raising awareness of fraud risks, arranging a programme of fraud prevention activities and providing advice to managers in the design and application of anti-fraud measures. . The HIA is also the Money Laundering Reporting Officer and investigating officer for any issues reported under the Whistleblowing Policy, and is responsible for publishing fraud statistics required by the Local Government Transparency Code.
- the **Corporate Governance Officers Group** is responsible for ensuring that the organisation has fraud and corruption procedures which comply with good governance standards

- the **Corporate Procurement Board**, whose role includes improving the overall procurement arrangements of the County Council, has a responsibility for developing procedures to detect and prevent fraud in the area of contracting and procurement
- the **Head of Insurance and Risk Management** is responsible for ensuring that fraud and corruption risks are considered by managers as part of the County Council's risk management processes and mitigating actions are taken as necessary
- the **Assistant Chief Executive (Legal and Democratic Services)** as Monitoring Officer has a statutory responsibility under the Local Government and Housing Act 1989 to ensure that the County Council, its officers and Members act lawfully in the discharge of the authority's functions.

4.0 CULTURE

4.1 The employees of the County Council can undertake an important role in identifying possible fraud and corruption and they are therefore required to report any concerns that they may have to their line manager immediately. If necessary a route, other than their normal line manager may be used to raise such concerns. Examples of such routes are via:-

- a Corporate Director
- the S151 Officer (Corporate Director – Strategic Resources)
- Internal Audit Service – Veritau Ltd
- the Monitoring Officer
- 24 Hour Anti-Fraud Confidential Hotline (see below)

4.2 The County Council has two separate Whistleblowing Policies (one applies to the County Council and the other to Primary Schools) in place in accordance with the Public Interest Disclosure Act. Information leaflets have been distributed to employees and reminders of the Policy's existence will be issued at intervals. Copies of the Policy are available on the intranet and to any employee on request. The County Council operates a hotline number for members of staff or contractors to report concerns via this route. The hotline is operated by **Veritau Ltd**, the provider of the Internal Audit Service to the County Council, and every attempt is made to protect the confidentiality of callers. The telephone number for the hotline is 01609 760067. Alternatively, employees may report concerns by e-mail to:

counter.fraud@veritau.co.uk

4.3 The County Council, including Members, will be robust in dealing with fraud or financial malpractice. Senior service managers are expected to deal swiftly and firmly with those who defraud, or intend to defraud, the County Council or who commit corrupt acts involving the County Council.

4.4 Senior service managers are responsible for ensuring that all suspected or reported irregularities are dealt with promptly and in accordance with proper practice. They should ensure that:-

- any case of suspected or reported fraud, corruption or similar irregularity is reported at the earliest opportunity to the Corporate Director – Strategic Resources and/or to the Head of Internal Audit (Veritau)
- any evidence that may have come into their possession is kept safely and securely (taking advice from Veritau if appropriate)
- the Head of Insurance and Risk Management is notified so that any appropriate insurance claim can be initiated and the irregularity is recorded in the County Council's Risk Registers
- the County Council's disciplinary procedures are implemented when and where appropriate.

4.5 Internal Audit (Veritau) will ensure that:-

- any case of suspected or reported fraud or corruption or other irregularity is dealt with promptly
- the Monitoring Officer will be informed as soon as Internal Audit becomes aware of any circumstances where the County Council, its officers or members may have acted unlawfully.
- a log is maintained by Veritau that records details of all concerns raised formally via whistleblowing arrangements
- all evidence is sound, properly recorded, and adequately secured
- the outcome of investigations is reported to senior service management
- all matters warranting referral to the Police are reported as soon as is practicable and that there is adequate liaison with the Police thereafter
- all investigation reports are followed up to ensure that systems weaknesses and disciplinary action identified as appropriate have been progressed as intended
- an Annual Report outlining the level of fraud and corruption within the County Council is submitted to the Audit Committee. This report will summarise the number and types of allegations being communicated to Veritau via the whistleblowing arrangements
- the Counter Fraud Strategy, the Whistleblowing Policy, the Anti-Money Laundering Policy, and the Prosecution and Loss Recovery Policy are reviewed annually and updated as required
- emerging risks to the County Council are identified on an annual basis in the Fraud and Loss Risk Assessment
- an annual review will be carried out into the significance and type of concerns being raised via whistleblowing arrangements to identify patterns and trends or indications that the purpose of the Policy is misunderstood by the County Council's staff and/or contractors

- the promotion of staff awareness of the County Council's counter fraud and whistleblowing arrangements and the dissemination of lessons learned (subject to Data Protection constraints).

5.0 PREVENTION

Fraud Risk Management and Control Framework

- 5.1 Senior service managers are responsible for the management of fraud risks in their area and should implement appropriate and robust controls and security measures to prevent or mitigate identified fraud risks. It is also their responsibility to maintain the effectiveness of these controls. Proposed changes to the control framework should therefore be carefully considered to avoid any unacceptable fraud risks arising. Senior service managers should also identify any factors that might not be fraud and corruption risks in their own right but could assist in the perpetration of fraud. For example, weak IT controls might allow a fraudster to gain unauthorised access to a system which then enables them to commit fraud.
- 5.2 The County Council will also publicise its anti-fraud and corruption stance and the specific actions it takes against fraudsters.

Members

- 5.3 Members are required to operate within:
- the Members' Code of Conduct
 - the Localism Act 2011 and associated legislation
 - the County Council Constitution
- 5.4 These matters and other guidance are specifically brought to the attention of Members as part of their induction.

Employees

- 5.5 The County Council recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential employees, in terms of their propriety and integrity. In this regard, temporary and contract employees should be treated in the same manner as permanent employees.
- 5.6 Employee recruitment should therefore be undertaken in accordance with the Recruitment and Selection procedures laid down by the Assistant Chief Executive (Business Support). In particular, written references covering the honesty and integrity of potential employees should be obtained before employment offers are made. Other clearances, for example, Disclosure and Barring Service (DBS) checks, should be obtained where necessary.
- 5.7 Employees are expected to abide by a Standards of Conduct Procedure which sets out the County Council's requirements regarding personal conduct. Employees are also expected to follow any Code of Conduct related to their personal Professional Regulating body.

- 5.8 The County Council has in place a Disciplinary Procedure for employees.
- 5.9 The role that employees are expected to play in the County Council's framework of internal control will feature in employee induction procedures. Induction procedures should also be used to raise awareness of the Whistleblowing arrangements and how any suspected concern may be raised.
- 5.10 The County Council has in place a Constitution containing Contract, Financial and Property Procedure Rules which provide a framework of control. Employees must operate within these Rules at all times.
- 5.11 The County Council maintains a register of interests for all key staff (Grade Band 12 and above, or below this grade where the nature of the post warrants the registration of post holder interests) and there is an expectation that all relevant interests will be declared. All employees are also required to declare offers of gifts and hospitality in accordance with the Council's Gifts and Hospitality Protocol for Employees. Any gifts and hospitality offered/declined must be recorded, in accordance with the Protocol, in the Directorate register and a copy of the registration also sent to the Monitoring Officer for inclusion in the central Register of Officers' Gifts and Hospitality.

Contractors

- 5.12 The County Council expects the highest standards of conduct from all its contractors and the staff they employ. They are consequently covered by the Council's Whistleblowing Policy.

Joint working with other agencies

- 5.13 Arrangements are in place, and continue to be developed, to encourage the exchange of information and intelligence between the County Council and other public agencies on national and local fraud and corruption activity in relation to local authorities. Any such exchange of information is undertaken in accordance with the principles contained in the Data Protection Act 1998 and the Information Commissioner's Office Code of Practice on Data Sharing. Where appropriate, the County Council will also participate in national or regional initiatives designed to prevent and detect fraud, such as data matching.
- 5.14 These public agencies include:-
- the Police
 - the Society of County Treasurers
 - local, regional and national auditor networks
 - the National Anti Fraud Network
 - the CIPFA counter fraud centre
 - Office of Fair Trading
 - Department for Works and Pensions

- Other local and public authorities

6.0 DETECTION AND INVESTIGATION

- 6.1 The County Council has in place an array of preventative systems, particularly internal controls designed to provide indicators of any fraudulent activity. These measures are generally also sufficient in themselves to deter fraud.
- 6.2 It is the responsibility of Corporate Directors/Heads of Service Units and their line managers to prevent and detect fraud and corruption. However, it is often the alertness of employees and members of the public to such indicators that enables fraud to be detected and the appropriate action to be taken.
- 6.3 Despite the best efforts of managers and auditors many frauds are discovered by chance or "tip-off" and the County Council has in place arrangements to enable such information to be properly dealt with.
- 6.4 It is a requirement of the Financial Procedure Rules that all suspected irregularities are reported to the Head of Internal Audit. Reporting is essential to the Counter Fraud Strategy and:-
- ensures the consistent treatment of information relating to suspected fraud and corruption
 - facilitates proper investigation by an experienced Internal Audit team
 - ensures the proper implementation of a fraud response plan (including proportionate measures to prevent any recurrence)
- 6.5 The County Council will also undertake targeted counter fraud activities (for example data matching exercises) to detect potential fraud and corruption. This proactive work will be carried out by Veritau as part of its annual work plan. The work will be prioritised based on the annual Fraud and Loss Risk Assessment, and where appropriate, may involve joint exercises with other agencies, including other local councils.
- 6.6 Depending on the nature and anticipated extent of the allegations, Veritau normally work closely with management, HR, and other external agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon. All staff involved in the investigation of fraud will be appropriately trained. They will be required to comply with any relevant legislation and codes of practice. For example the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA), the Data Protection Act, and the Criminal Procedures Investigations Act.
- 6.7 The County Council's Disciplinary Procedures will be used where the outcome of the audit investigation indicates improper behaviour by a member of staff.
- 6.8 Where impropriety is discovered and there is evidence that a criminal offence may have occurred, the County Council's policy is that the Police or other relevant law enforcement agency will be informed where appropriate but that this will not delay the matter being dealt with on an internal basis. Referral to the Police or other relevant law enforcement agency is a matter for the Head of Internal Audit following

consultation with the Chief Executive Officer, the Corporate Director – Strategic Resources, the Monitoring Officer and/or the relevant Service Corporate Director(s) as appropriate.

6.9 The External Auditor also has powers to independently investigate fraud and corruption, and the County Council can use his services for this purpose, if considered appropriate.

7.0 RECOVERY OF LOSSES INCURRED

7.1 When the County Council can demonstrate that it has suffered financial loss and, where it is practical, action will be taken to recover the loss from the individual or organisation concerned. Where criminality has been proven then the Proceeds of Crime Act 2002 may be used to recover funds, where appropriate.

7.2 Other methods of recovery include, but are not confined to:-

- recovery of pension contributions from employees who are members of the North Yorkshire Pension Fund
- an assessment of what assets are held by an employee or third party, who has committed fraud and whether the losses incurred by the County Council can be recovered through civil proceedings
- bankruptcy if it is believed an individual has a poor history of paying
- if an individual remains an employee of the County Council any assessed losses can be recovered from future salary payments

7.3 Where potential criminal offences may have been committed then cases involving employees will normally be referred to the Police or other relevant law enforcement agency. The County Council may decide not to pursue matters further until such external investigations and/or enforcement action are concluded. However, such investigations often take time. In such circumstances, Veritau's internal auditors will therefore work with Human Resources, within the rules of the disciplinary process, to minimise the ongoing salary payments made to staff who are subject to investigation.

8.0 FRAUD AWARENESS AND TRAINING

8.1 Training, particularly of line managers, is an effective method of raising awareness of the risk of fraud. Veritau will use the outcomes from the annual fraud and loss risk assessment, and other indicators, to determine what counter fraud training may be appropriate, and arrange the delivery of such training. In addition, Veritau will coordinate other measures to raise awareness including the use of newsletters, posters, the intranet and key messages. The effectiveness of training and other fraud awareness activities will be periodically evaluated.

9.0 CONCLUSIONS

9.1 The County Council has in place a clearly defined network of systems and procedures to assist in the fight against fraud and corruption. It is recognised that these arrangements must keep pace with any future developments in both

preventative and detection techniques regarding fraudulent or corrupt activity which may affect its operational activities.

9.2 To this end the County Council maintains a continuous overview of such arrangements in particular, through its Corporate Director – Strategic Resources, the Financial Procedure Rules, Finance Manual and internal audit arrangements.

10.0 REVIEW OF STRATEGY

10.1 This Strategy will be reviewed every year and updated as required.