

Report to: **Audit and Best Value Scrutiny Committee**

Date: **10 March 2008**

By: **Deputy Chief Executive and Director of Corporate Resources**

Title of report: **Anti Fraud and Corruption Strategy and Anti Fraud and Corruption Action Plan**

Purpose of report: **To present the revised Anti Fraud and Corruption Strategy and update Members on other planned anti fraud activity.**

RECOMMENDATIONS:

Members are asked to

- **note the revised County Council Anti Fraud and Corruption Strategy prior to it being presented to Governance Committee for approval, and;**
- **note and support the planned future anti fraud and corruption activity.**

1. Financial Appraisal

1.1 There are no direct financial implications associated with the revised Anti Fraud and Corruption Strategy itself. However we have identified a number of areas where our Anti Fraud and Corruption work needs further development and improvement, and these cannot be fully resourced within current capacity. We have therefore made a successful bid for additional resources as part of the 2008/09 reconciling policy and resources flexibilities.

2. Background

2.1 Arrangements for Anti Fraud and Corruption work are well established within the Council and have resulted in a score of 4/4 being achieved within the 2007 Use of Resources (UoR) assessment for the key lines of enquiry:

- The Council has arrangements in place to maintain a sound system of internal control;
- The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.

2.2 However, external expectations of Councils in relation to this area are increasing. In 2007, the CIPFA Better Governance Forum published 'Managing the Risk of Fraud: Actions to Counter Fraud and Corruption'. This guidance provides a comprehensive checklist for public sector organisations to use in order to assess their effectiveness in countering fraud and corruption. The Audit Commission has also continued to expand the remit of its biennial National Fraud Initiative (NFI) and looks certain to continue to do so, based on its extended powers under the Fraud Act 2007, resulting in additional workload for the Council, including internal audit. Both of these drivers are reflected in the higher standards for anti fraud and corruption work in the Audit Commission's UoR criteria for 2008.

2.3 Internal audit has completed a review of ESCC anti fraud and corruption arrangements, using CIPFA checklist and the Audit Commission's Key Lines of Enquiry (KLOE) for the Use of Resources 2008 (covering arrangements to prevent and detect fraud and corruption).

2.4 As a result of this, and in response to other external drivers, such as the expansion of the NFI, we have identified a number of areas where we are currently achieving only partial compliance or where further improvements are required to meet the new, higher standards. These relate primarily to the following:

- Improving publicity and raising awareness to create a stronger anti fraud and corruption culture;
- Increasing the use of proactive and targeted anti fraud activities based on a risk assessment;
- Improvements to internal processes for identifying and managing anti fraud and corruption activity, including investigations and their outcomes.

2.5 We have carried out a considerable amount of anti fraud and corruption work during recent years, both in terms of internal audit investigations, resultant internal control reviews and work in support of the NFI. The total number of days spent on this work was 168 in 2006/07 and 214 in the first 9 months of 2007/08. This work, especially where it is reactive / unplanned, does impact on our ability to deliver other work within the risk based annual internal audit plan, but it has been used to target future anti fraud and corruption activity and ensure appropriate lessons are learned. The planned future work referred to in para 2.4 will therefore build on these current arrangements. It will seek to achieve further improvements with a view to continuing to meet both external standards and the Council's objective, set out in the strategy, of encouraging prevention, promoting detection, identifying a clear pathway for investigation and showing that all appropriate sanctions will be taken where fraud and corruption has been found.

3. Anti Fraud and Corruption Strategy

3.1 One result of our self assessment work is the production of a revised Anti Fraud and Corruption Strategy which is attached as Appendix A.

3.2 As well as ensuring that it reflects the requirements of the documents referred to above, the Strategy has also been developed based on examples of good practice. The main changes are as follows:

- Clearer definitions of what is meant by 'Theft', 'Fraud' and 'Corruption'.
- Further information on preventative measures, with specific reference to the responsibilities of various groups, which now includes contractors, suppliers, partnerships and voluntary organisations.
- Addition of a new section on 'deterrence' to re-enforce the Council's position on not tolerating fraud and corruption and the sanctions which will be applied where it is discovered.
- Further clarification on the role of the Internal Audit Service in relation to fraud and irregularity investigation.

4. Conclusion

4.1 ESCC has strong anti fraud and corruption arrangements and this has been recognised as part of the recent CPA Use of Resources Assessment. However, in order to ensure that this framework remains strong and continues to develop in line with best practice, further work is still required and the additional resources secured through RPR should provide a firm basis for achieving this.

SEAN NOLAN

Deputy Chief Executive and Director of Corporate Resources

Contact Officers: Duncan Savage
Russell Banks

Tel No. 01273 482330
Tel No. 01273 481447

BACKGROUND DOCUMENTS

Internal Audit Strategy and Annual Audit Plan 2007/08



Anti Fraud and Corruption Strategy

Sets out the County Council's strategy for preventing and detecting fraud, corruption and other wrong doing

Key points

- The County Council is committed to fighting fraud and corruption whether it is committed from outside or within the Council;
- The Council will not tolerate fraud, corruption or other wrongdoing in the provision of its services;
- This Strategy is designed to encourage prevention, promote detection and investigation and show that all appropriate sanctions will be taken where fraud or corruption has been found;
- The Council's expectation is that Members and staff at all levels will lead by example in ensuring adherence to our standards of behaviour, legal requirements, rules, procedures and practices;
- The Council has in place a clear network of systems and procedures to assist it in the fight against fraud and corruption;
- A Confidential Reporting ('Whistleblowing') Policy has been produced in order to encourage staff to report any concerns in a confidential manner.

1. Introduction

1.1 East Sussex County Council is one of the largest organisations in the County - employing over 15,000 people, with a turnover of about £700m a year and assets, interests and annual transactions running into £billions.

1.2 In carrying out its responsibilities to safeguard public funds the Council is committed to fighting fraud and corruption, whether it is attempted from outside or inside the Council, and is committed to an effective Anti-Fraud and Corruption Strategy designed to:

- encourage prevention;
- promote detection;
- identify a clear pathway for investigation ; and
- show that all appropriate sanctions will be taken where fraud or corruption has been found.

1.3 This Strategy is part of the Council's overall objective, set out in the Council Plan, to:

- maintain and improve high standards of resources management across the Council; and
- maintain and improve high standards of governance, internal control and risk management.

1.4 The Council's expectation on propriety and accountability is that Members and staff at all levels will lead by example by ensuring adherence to our standards of behaviour, legal requirements, rules, procedures and practices.

1.5 The Council has a separate policy covering [Anti Money Laundering](#).

2. Definitions

2.1 This Strategy covers all irregularities, including theft, fraud and corruption.

2.2 **Theft** - is "the dishonest taking of property belonging to another person with the intention of permanently depriving the owner of its possession"

2.3 **Fraud** - is "the intentional distortion of the financial statements or other records by a person internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain"

2.4 **Corruption** - is "the offering, giving, soliciting or acceptance of an inducement or rewards which may influence the action of another person".

2.5 This strategy also covers other irregularities or wrong doing, for example failure to comply with Financial Regulations, Standing Orders, national and local codes of conduct, Health and Safety Regulations and all other relevant laws and legislation that result in an avoidable loss to the Council.

3. Culture

3.1 East Sussex County Council is determined that the culture and tone of the organisation is one of honesty and opposition to fraud and corruption. It is our aim to minimise fraud and corruption and to act robustly where it is identified.

3.2 There is an expectation and requirement that all individuals and organisations associated in whatever way with the Council will act with integrity and that Members and staff, at all levels, will lead by example. The Council will not tolerate fraud, corruption or other wrongdoing in the provision of its services, regardless of the perpetrator, and is prepared to take vigorous action where this is identified.

3.3 The key principles of openness, integrity and accountability have been adopted by the County Council to underpin its approach to corporate governance and to the implementation of this strategy:

- **Openness** is required to ensure that stakeholders can have confidence in the decision-making and management processes of local authorities, and in the approach of the individuals within them. Being open, through genuine consultation with stakeholders and providing access to full, accurate and clear information, leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an inclusive approach which seeks to ensure that all stakeholders and potential stakeholders have the opportunity to engage effectively with the decision making processes and actions of local authorities. It requires an outward focus and a commitment to partnership working. It may also call for innovative approaches to service provision.
- **Integrity** encompasses straightforward dealing as well as being based upon **honesty, selflessness** and **objectivity**. High standards of propriety and probity in the stewardship of public funds and management of the Council's affairs are expected. Integrity is dependent upon the effectiveness of the control framework and on the personal standards and professionalism of the members and staff within the Council. It is reflected in the Council's decision-making procedures, in its service delivery and in the quality of its financial and performance reporting.
- **Accountability** is the process whereby the Council, and its members and staff, take responsibility for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities and having clearly defined roles. This can only come about through a robust corporate governance structure.
- **Leadership** includes all the principles outlined above because these can only be followed if effective leadership is exercised through the County Council providing vision and leading by example in its decision making processes and actions, and Members and officers conducting themselves in accordance with high standards of conduct.

3.4 The Council's employees are an important element in its stance on fraud and corruption and they are required under County Council Financial Regulations (A4.4) to raise any concerns that they may have by using our corporate Confidential Reporting Policy (**Whistle-blowing**). This they can do in the knowledge that such concerns will be treated in confidence, properly investigated and fairly dealt with.

3.5 The policy explains that any allegation relating to potential fraud, financial maladministration, conflict of interest, breach of confidentiality, improper use of resources, ICT abuse and any other form of financial irregularity should be reported to the Council's Internal Audit Service.

3.6 Allegations of fraud and corruption can also be reported to the following individuals, but these will be passed subsequently to Internal Audit for investigation:

- Line Management or Departmental Finance Manager
- The Chief Executive, County Hall
- The Deputy Chief Executive and Director of Corporate Resources, County Hall
- The Monitoring Officer / Director of Law & Personnel, County Hall
- Assistant Director, Audit & Performance, Corporate Resources, County Hall

3.7 The Confidential Reporting Policy can also be used for raising concerns other than possible fraud and corruption such as general maladministration, possible sexual or physical abuse of clients, health and safety risks and damage to the environment.

3.8 Members of the Public are also encouraged to report concerns through any of the above routes or, if appropriate, through the County Council's Complaints Procedure.

3.9 The Council's corporate [Confidential Reporting Policy](#) also makes it clear that if employees still feel unable to raise their concerns through any of the above internal County Council routes, then they may wish to raise them through the external contact points referred to in the policy such as Public Concern at Work (tel: (020) 7404 6609), a registered charity whose services are free and strictly confidential, the District Auditor or trade union.

4. Prevention

4.1 The 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.

4.2 Employee recruitment must be carried out in accordance with procedures laid down by the Director of Law and Personnel and, in particular, appropriate pre-employment checks must be completed. These will include obtaining written references regarding known honesty and integrity of potential employees, verifying and retaining copies of certificates for stated qualifications and, where it is considered necessary for the post, undertaking appropriate police checks.

4.3 The Council also has in place a framework of internal control designed to prevent and detect irregularity, misconduct, and fraud. This framework includes the following key elements (some of which have been referred to above):

- [Code of Conduct for Employees](#)
- [Confidential Reporting Policy](#)
- [Anti Money Laundering Policy](#)
- [Financial Regulations](#) and [Standard Financial Procedures](#)
- [Contract Standing Orders](#)

Responsibilities of Members

4.4 Members are required to exercise an overall leadership role and operate within:

- The County Council's Code of Conduct for Members;
- The Relevant Authorities (General Principles) Order 2001;
- Local Authorities Members' Interest Regulations 1992 (S.I. 618);
- County Council Standing Orders;
- The rules concerning the registration of financial and other specified interests with the Director of Law and Personnel, and the declaration of personal interests at meetings. The purpose of these rules is to address potential areas of conflict between Members' County Council duties and responsibilities and their personal interests, so that decision making is open and honest.

4.5 In addition, the Audit and Best Value Scrutiny Committee have responsibility for monitoring anti fraud and corruption activity across the County Council.

Responsibilities of Management

4.6 Chief Officers and management at all levels within the Council are responsible for ensuring that:

- there are sound systems of internal control which operate efficiently and effectively, including those in an information technology environment;
- such systems include adequate separation of duties to ensure that error or impropriety are prevented;
- all staff are aware of the relevant Codes of Conduct, rules and regulations and that these are being followed;
- internal audit are notified as soon as any fraud or irregularity is suspected so that investigations can commence, and any risk of inappropriate action is minimised.

Responsibilities of Employees

4.7 All employees of the Council must:

- act at all times with honesty and integrity;
- comply with the Council's [Code of Conduct for Employees](#), which sets out the Council's requirements concerning personal conduct. This Code forms part of all Contracts of Employment.
- comply with the Code of Conduct related to their personal Professional Institute (where applicable);
- comply with all other Council policies, regulations and procedures including, Financial Regulations and Contract Standing Orders;
- report any concerns that they may have in relation to possible fraud, corruption or irregularity where they are associated with the Council's activity. This includes concerns about fraud or corruption involving the Council's contractors, suppliers or partnerships in which the Council is engaged.

Responsibilities of Contractors, Suppliers, Customers and Members of the Public

4.8 The County Council expects that:

- individuals and organisations (e.g. suppliers, contractors, service providers) will act towards the Council with integrity and without thought or actions involving fraud and corruption;
- contractors will be able to demonstrate that they have adequate systems of control to ensure the prevention and detection of fraud and corruption in relation to services provided on behalf of the Council;
- all organisations and individuals report any concerns they may have through the Confidential Reporting Policy or Complaints Procedure.

Responsibilities of Partnerships and Voluntary Organisations

4.9 All partnerships and joint working arrangements that are in receipt of Council funding or resources are expected to demonstrate appropriate mechanisms for control which ensure the prevention and detection of fraud and corruption. Partnership agreements should refer to the adopted Financial Regulations and Codes of Conduct which govern the partners, and to the internal audit arrangements.

4.10 Voluntary organisations should be encouraged to follow the standards set by the Council, including the need to report any concerns over possible fraud or corruption in relation to activities connected with the County Council or involving Council funds. The Council's Anti-Fraud and the Corruption Strategy should be made available where the voluntary organisation is in receipt of grant funding.

Responsibilities of Internal Audit

4.11 The County Council's Internal Audit Service will:

- deliver a programme of reviews of Council systems, in accordance with an annual audit plan, which will include having regard to management arrangements for preventing fraud and irregularity;
- in conducting audit activity, be alert to the risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have been occurring;
- investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy.

Combining with Others

4.12 Arrangements are in place, and continue to be developed, to encourage the exchange of information between the Council and other agencies on national and local fraud and corruption activity in relation to Local Authorities.

4.13 With the rapid increase in recent years of frauds perpetrated against a variety of local authorities and benefits agencies, which usually include fraudsters having multi-identities and addresses, the necessity to liaise between organisations has become paramount, and some of these include:

- Police;
- Other Local Authorities
- Banks' and Building Societies' investigation units;
- Audit Commission and our appointed external auditors;
- Universities and Colleges;
- H.M. Immigration Service;
- National Health Service;
- HM Revenues and Customs
- Benefits Agency

5. Detection

5.1 The array of preventative systems, particularly internal control systems within the Council, has been designed to provide indicators of any fraudulent activity, although generally they should be sufficient in themselves to deter fraud.

5.2 It is the responsibility of Chief Officers and their managers to prevent and detect fraud and corruption. However, it is often the alertness of staff and the public that enables detection to occur and the appropriate action to take place.

5.3 Despite the best efforts of Managers and auditors, many frauds are discovered by chance or "tip-off" and the Council has in place arrangements to enable such information to be properly dealt with. These are set out within the Council's Confidential Reporting Policy.

5.4 County Council staff are required by our Financial Regulations to report all suspected irregularities to any of the individuals or bodies set out within paragraphs 3.4 and 3.5 above. The County Council Confidential Reporting Policy has been developed to provide a clear framework for reporting such concerns and this includes the following dedicated confidential reporting hotline and e-mail address:

Confidential Reporting Hotline: 01273 481995
E-mail: fraudhotline@eastsussex.gov.uk

5.5 Internal Audit is also pro-active in the use of proven methods for the detection of fraud and corruption, including computer assisted audit techniques and data matching (including participation in the Audit Commission's National Fraud Initiative).

6. Deterrent

6.1 Fraud, corruption and malpractice will not be tolerated and where it is identified the County Council will deal with proven wrongdoings in the strongest possible terms, including:

- disciplinary action;
- reporting to the Police;
- seek maximum financial recovery of any losses, including use of civil legal action through the courts.

6.2 Referral to the Police is a matter for the Deputy Chief Executive and Director of Corporate Resources and relevant Chief Officer, in consultation with the Director of Law and Personnel. In practice, these powers have been delegated to the Chief Internal Auditor and third-tier level officers upwards. Referral to the Police will not prohibit action under the Disciplinary Procedure.

6.3 In cases of alleged fraud, corruption or other irregularity, the Council will pursue the case through its disciplinary processes, even if the member of staff has resigned

6.4 The Council will also publicise, where appropriate, proven cases of theft, fraud and corruption as a deterrent to others.

7. Investigations

7.1 Where suspected fraud, corruption or malpractice is identified, Internal Audit will work closely with management and, where appropriate, other agencies such as the Police, to ensure that all allegations and evidence are properly investigated and reported upon.

7.2 Investigations will be carried out by an independent and professional Internal Audit Service, which will take account of relevant policies and legislation, including the Equal Opportunities Policy, the Human Rights Act 1998 and the Regulation of Investigatory Powers Act 2000.

7.3 The External Auditor also has powers independently to investigate fraud and corruption, and the County Council can use the Auditor's services for this purpose too.

8. Training

8.1 The Council recognises that the continuing success of its Anti-Fraud and Corruption Strategy and its general credibility will depend largely on the effectiveness of programmed training and responsiveness of staff throughout the organisation.

8.2 To facilitate this, the Council supports induction and other training, particularly for employees involved in internal control systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced.

8.3 The possibility of disciplinary action against employees who ignore such training and guidance is clear.

8.4 The investigation of fraud and corruption centres on the Council's Internal Audit Service. Staff involved in this work should also be properly and regularly trained. The training plans of audit staff will reflect this requirement.

8.5 The monitoring of the overall progress of this strategy will be the responsibility of the Director of Corporate Resources, as part of the monitoring of the internal audit plan.

8.6 Significant issues arising from fraud and corruption investigative work will be included within regular Internal Audit reports to Audit and Best Value Scrutiny Committee.

9. Conclusion

9.1 The Council sets and maintains high standards of conduct and a culture of honesty, openness and integrity. This Strategy fully supports our aim to minimise fraud and corruption and act robustly where it is identified.

9.2 The Council has in place a clear network of systems and procedures to assist it in the fight against fraud and corruption. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques, regarding fraudulent or corrupt activity that may affect its operation or related responsibilities.

9.3 To this end, the Council maintains a continuous overview of such arrangements and, in particular, through its Deputy Chief Executive and Director of Corporate

Resources, the Standing Orders and Financial Regulations, various Codes of Conduct and Financial Practice, Accounting Instructions and audit arrangements.

Date last reviewed	January 2008
Document owner	Assistant Director – Audit & Performance