

## **BABERGH DISTRICT COUNCIL**

**FROM:** Director of Finance

**REPORT NUMBER:** **J204**

**TO:** **OVERVIEW AND SCRUTINY  
(STEWARDSHIP) COMMITTEE**

**DATE OF MEETING:** 23 March 2010

### **ETHICAL FRAMEWORK AND MANAGING THE RISK OF FRAUD AND CORRUPTION**

#### **1. PURPOSE OF REPORT**

- 1.1 This report explains the arrangements in place within Babergh District Council to ensure there is a pro-active corporate approach to preventing fraud and corruption and a creating a culture where fraud and corruption will not be tolerated.
- 1.2 The report gives details of proactive work undertaken by Internal Audit and the Fraud Team to deter, prevent and detect fraud and corruption.

#### **2. RECOMMENDATIONS**

- 2.1 That the Committee notes the progress made in introducing effective arrangements and measures to minimise the risk of fraud and corruption.
- 2.2 That the Committee notes the proposed Anti-Fraud and Corruption Action Plan for 2010/11, as referenced in paragraph 5.10 and set out in Appendix A.
- 2.3 That the Committee notes that following completion of the fraud checklist, as referenced in paragraphs 5.11 & 12 and set out in Appendix B, which will provide further assurance, that the Council has governance and anti-fraud and corruption arrangements in place that are fit for purpose and working as intended.
- 2.4 That the Committee notes the progress and position on the proposed actions reported to this Committee in January 2009, as referenced in paragraphs 5.13 & 14 and set out in Appendix C.
- 2.5 That, in future, the Committee receives an annual report on the progress and actions taken to manage the risk of fraud and corruption.

The Committee is able to resolve these matters.

#### **3. FINANCIAL IMPLICATIONS**

- 3.1 Whilst there are no direct implications arising from this report there are inherent resource implications concerning anti-fraud and corruption issues. Any increase in controls has cost implications, both in terms of additional checks, potentially slowing down service delivery, and computer system changes. Those costs have to be balanced against the risk of loss, whether because of fraud, corruption or general inefficiency. Any implications arising from the need to introduce additional controls and mitigations will be discussed with management. The emphasis at all times will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

4. **RISK MANAGEMENT**

4.1 This report is most closely linked with the Council's Significant Business Risk No.7. Financial, Performance and Risk Management. Key risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
<p>If robust anti-fraud and corruption arrangements are not in place this could affect the achievement of the Council's strategic aims and priorities, key projects, the delivery of services and its reputation.</p>	<p>Low</p>	<p>Critical</p>	<p>The risk of fraud and corruption in relation to Council activities is taken into consideration both as part of the Council's general approach to risk management and also in the development of the Internal Audit Plan from year to year.</p> <p>In practice, the Council's mitigating controls include clear policies and procedures available to all employees and Members; Internal Audit and the Fraud Team investigate potential areas of fraud or corruption; compliance with the National Fraud Initiative; and a sound internal control environment as demonstrated by internal and external audit opinions and the Annual Governance Statement.</p> <p>The Council's Financial Regulations and Procedures give responsibility for the development and maintenance of an Anti-Fraud and Corruption Policy and Strategy to the Director of Finance. Senior management of the Council are responsible for ensuring that this policy is implemented within the work areas under their control.</p>

5. **KEY INFORMATION**

**Introduction**

5.1 This is the first report of this nature produced by the Council. The Council's Ethical Framework is the set of rules and procedures which set out the standards of behaviour that the Council expects of its Members and staff. This is an important area against which the Council is assessed under the Use of Resources self assessment.

5.2 Closely linked to the Council's Ethical Framework are the arrangements it has in place to manage the risk of fraud and corruption. This report provides a clear basis for raising awareness by setting out information that will be communicated to our stakeholders of the work the Council undertakes to manage the risk of fraud and corruption. It brings together in one document a summary of the outcomes of our work to deter, prevent and detect fraud and corruption.

- 5.3 The Council has traditionally encountered low levels of fraud, corruption and theft. However, the risk of such losses both internally and externally is fully recognised as a part of the Council's operations that needs to be managed pro-actively and effectively.
- 5.4 The Council's Anti-Fraud & Corruption and Whistleblowing Policy and Strategy forms part of the governance arrangements for the Council. Its purpose is to minimise the risk of fraud and corruption occurring.
- 5.5 The Council's expectation of propriety and accountability is that Members and employees, at all levels, will lead by example in ensuring adherence to legal requirements, policies, procedures and practices.
- 5.6 The Council also expects that individuals and organisations (e.g. suppliers, contractors, partners, service providers) with whom it comes into contact will act towards the Council with integrity and without thought or actions involving fraud and corruption.

### **CIPFA RED BOOK 2 – Managing the risk of fraud**

- 5.7 The CIPFA Red Book 2 identifies areas of good practice with regards to combating fraud and corruption and provides a useful self-assessment tool for the Council.
- 5.8 The original CIPFA Red Book described what action was needed for an organisation to be effective in countering fraud and corruption. The revised version, Red Book 2, expanded it by providing further definitions, explanations and examples of the attributes required, and is acknowledged as a guide to good practice. It is considered in Comprehensive Area Assessments and within the Use of Resources self assessment.
- 5.9 Internal Audit and the Fraud Team have carried out an assessment of how the Council compares to the guidance of Red Book 2.
- 5.10 Overall, the assessment had shown that the Council is, on the whole, already substantially complying with the requirements of the Red Book 2. There are some areas for development nevertheless, where we can further strengthen our arrangements. A proposed action plan has been produced to help achieve these improvements, against which actions will be monitored and reported back to this Committee in future reports. Appendix A refers.

### **Protecting the Public Purse**

- 5.11 The Audit Commission produced a report entitled 'Protecting the Public Purse' – Local Government Fighting Fraud' (September 2009), which considered the key fraud and corruption risks and pressures facing local authorities and related bodies and identified good practice areas. This included a fraud checklist which has been completed and is shown as Appendix B.
- 5.12 The results show that assurance can be taken that the Council has governance and anti-fraud and corruption arrangements in place that are fit for purpose and working as intended. No further action is required to meet good best practice, although there is still a need to continue reinforcing the messages of awareness, deterrence, prevention and detection.

## **Awareness**

- 5.13 The Anti-Fraud & Corruption and Whistleblowing Policy sets out the Council's approach to fraud and corruption affecting its activities. The Policy was revised and reported to this Committee in January 2009 (Paper H177).
- 5.14 The report set out a number of actions to raise awareness of this policy, and improve fraud awareness across the Council. Appendix C provides a position statement against these actions.

## **Policies and Procedures**

- 5.15 The Council is committed to ensuring that any opportunity for committing fraud and corruption is minimised. It adopts a culture in which all of its employees, Members and stakeholders can help the organisation maintain a proactive attitude towards preventing fraud and corruption by reporting fraudulent, corrupt, dishonest or unethical behaviour.
- 5.16 To support this the Council has a range of interrelated policies and procedures that provide a corporate framework to counter fraudulent and corrupt activity. These have been formulated in line with appropriate legislative requirements, and include an Anti-Fraud & Corruption and Whistleblowing Policy, incorporating the Counter Fraud Strategy, Money Laundering notes and other guidance available to all through the Council website and intranet facilities (BEN).
- 5.17 Other information is being addressed continuously to ensure external and internal stakeholders are kept informed of the Council's approach to ethical governance and fraud and corruption.

## **National Fraud Initiative (NFI)**

- 5.18 The NFI is a two-yearly exercise, run by the Audit Commission that matches electronically supplied data from within public sector organisations to highlight potentially fraudulent activity. Organisations participating include police authorities, local probation boards, pension's authorities and fire and rescue authorities, as well as all local authorities.
- 5.19 The initiative works by comparing different sets of data. Like payroll and housing benefit records, and flagging potentially unusual combinations such as any individual claiming housing benefits from more than one local authority or any individual claiming housing benefits while failing to disclose their employment.
- 5.20 The organisations taking part receive reports on these potential data mis-matches, which they can then investigate to determine the existence of any fraud or error.
- 5.21 The data matches are split between higher risk matches (i.e. those which are initially recommended for full individual investigation) and medium and lower matches (initially a sample investigation approach is recommended). The results for the Council showed a total of 1,669 matches.

- 5.22 The Fraud Team are currently working on the results. As at 31st January 2010, all 1669 matches had been considered. A total of 912 cases had been reviewed and so far 868 of these had been processed. This left 44 cases with ongoing checks required by other agencies and departments. Of the 868 data matches processed, 48 cases had provided overpayments of benefit totalling £58,926.97. The overpayments ranged from as little as £1.00 to the highest of over £15, 000.
- 5.23 So far, 2 people have been Prosecuted in the courts, 4 people received a Formal Caution and 1 person received an Administrative Penalty. 1 case is due in court shortly, 1 case is awaiting the sanction decision of the DWP (a joint working case) and 2 are at the latter stages of their investigation.
- 5.24 Two further data match sets occurred during 2009-10. A new one matching Registered Social Housing Data against Council Housing tenancy data, the figures had been included in the above totals. This was previously a pilot exercise that the government has now decided to roll out nationally. Local Authorities are expected to carry out a lot of new work, previously not undertaken in this area. The Housing Department are currently reviewing their procedures and processes in respect of the new guidance issued. There was also a new Council Tax/Electoral Registration data collection that took place on the 29th January 2010. The resulting data mis-matches should be supplied to local authorities at the end of March 2010.

### **Benefit Fraud - Arrangements**

- 5.25 The Council recognises that overpayments can and do occur as a result of errors made, false statements and/or omissions at the start of a claim or changes during the life of the claim and these are not properly or promptly identified. The Council does not pursue formal sanctions against anyone innocently causing an overpayment by making a genuine error. The Council does, however, seek to recover any overpayments incurred, either by error or fraud.
- 5.26 Benefits fraud remains a significant risk faced by the Council which, as a consequence, dedicated a Fraud Team towards its deterrence, prevention and detection.
- 5.27 Investigative employees of the Fraud Team work within a code of conduct and are accredited Counter Fraud Officers. The Senior Investigator is also an accredited Counter Fraud Manager. Each one is trained in the Professionalism in Security (PINS) standard.
- 5.28 The Fraud Team receive referrals from many sources including the public (through the Fraud Hotline and by letter), the Department of Works and Pensions (DWP), the Housing Benefit Matching Service (HBMS), NFI, the Council's Housing Benefits Section, Customer Services Teams, Council Housing Department and others.

5.29 The following table is a breakdown of the benefit fraud cases for 2008/09 and 2009/10 (as at 31st January 2010):

Category	Number	
	2008/09	2009/10
Number of referrals received within the year	486	*434
Number of investigation cases completed	228	161
Number of cautions administered	25	40
Number of administrative penalties	1	2
Number of successful prosecutions	20	16

\* Does not include NFI referrals.

5.30 As a result of its work up to the 31<sup>st</sup> January 2010, the Fraud Team had:

- Identified over £135,859 (excluding the NFI outputs in 5.22) paid out in fraudulent or claimant error benefits claims; and
- Earned potential Government subsidy totalling £54,343 as a result of the Council's identification of these overpayments.
- Sanctioned 58 people. A total of 69 is estimated for year end. A potential increase of 50% on 2008-09.

### **Audit Planning**

5.31 The Council's Internal Auditors have a crucial role in helping the Council to deter, prevent and detect fraud and corruption.

5.32 Internal Audit carries out an annual assessment of the areas most at risk of fraudulent activity with the Council's senior management. This contributes to the overall formation of audit coverage.

5.33 In addition, the annual Audit Plan has an allowance for Internal Audit to undertake irregularity investigations and proactive anti-fraud and corruption work. This is at a level deemed proportionate to the identified risk of fraud and corruption within the Council.

### **Conclusion**

5.34 The Anti-Fraud & Corruption and Whistleblowing Policy, incorporating the Counter Fraud Strategy, supported by a sound network of systems and procedures, provide a clear framework for preventing and tackling fraudulent and corrupt acts against the Council.

5.35 The approval of the Policy by this Committee demonstrates the Council's commitment to protecting public funds and minimising losses to fraud and corruption.

6. **APPENDICES**

- A Proposed Anti-Fraud and Corruption Action Plan for 2010/11
- B Checklist for those responsible for governance
- C Status position against the January 2009 proposed actions

7. **BACKGROUND PAPERS REFERRED TO:**

None.

**CONTACT:** Barry Hunter  
Director of Finance

**EMAIL:** [barry.hunter@babergh.gov.uk](mailto:barry.hunter@babergh.gov.uk)

John Snell  
Acting Audit Manager

**EMAIL:** [john.snell@babergh.gov.uk](mailto:john.snell@babergh.gov.uk)

## Appendix A

### PROPOSED ANTI-FRAUD AND CORRUPTION ACTION PLAN 2010/11

<b>Specific areas to target</b>	<b>Purpose/Area of interest</b>	<b>Responsible for Action</b>	<b>Target Date</b>
Counter Fraud Strategy and Anti-Fraud & Corruption and Whistleblowing Policy	Due for review and updating in line with current/future objectives – Fit for purpose.	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011
HR Recruitment and internal job changes	Application forms, reference checks, CRB normal & enhanced checks, ongoing responsibilities of staff.	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011
Collection of external data	Appropriate information at all times must be supported by Fair Processing Notices of how information can be used e.g. data matching for fraud/criminal matters. Ensure clear instructions/guidance exists that cover: <ul style="list-style-type: none"> <li>▪ Staff responsibilities</li> <li>▪ Changes to forms/documents that request information</li> <li>▪ Timescales for keeping/destroying data</li> <li>▪ Compliance with instructions/guidance</li> </ul>	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011
Contracts – Partnerships - Commissioning	Ensure a standard clause exists in all contracts with regard to reporting suspected fraud/corruption/bribery, and the outcomes if any suspicion is founded.	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011
Social Housing	Linking with the NFI data matching and funding applied for and received for work in this area. Ensure	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011

	<p>all documents requesting information include:</p> <ul style="list-style-type: none"> <li>▪ Declaration of accuracy/truth</li> <li>▪ Ongoing responsibility to declare changes in circumstances</li> <li>▪ Consequences of declaring false information</li> <li>▪ How the reported data will be used.</li> <li>▪ Verification processes that may be undertaken</li> </ul>		
Linking of documents	<p>Ensure all the governance documents are located in one place for all staff/members/public/contractors/suppliers/other stakeholders to access.</p> <p>Ensure clear responsibility exists for monitoring/updating/publicising the above documents.</p>	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011
Raising awareness corporately and within Divisions	Put in place methods for raising awareness, targeting the audience and locations.	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011
Contract letting procedures	Ensure our contract letting procedures comply with the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011
Key risk areas	Undertake specific reviews throughout the Council and target highest risk areas.	Lead through the Internal Audit function	By 31 <sup>st</sup> March 2011

## CHECKLIST FOR THOSE RESPONSIBLE FOR GOVERNANCE

		Yes	No	Action
	<b>General</b>			
1.	Have we committed ourselves to zero tolerance against fraud?	√		
2.	Do we have appropriate strategies, policies and plans?	√		
3.	Do we have dedicated counter-fraud resources?	√		
4.	Do the resources cover all of the activities of our organisation?	√		
5.	Do we receive regular reports on fraud risks, plans and outcomes?	√		
6.	Have we assessed our management of counter-fraud resources against good practice?	√		
7.	Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> <li>• new staff</li> <li>• existing staff?</li> <li>• members?</li> </ul>	√ √ √		
8.	Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?	√		
9.	Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?	√		
10.	Do we identify areas where internal controls may not be performing as intended?	√		
11.	Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?	√		

<b>Fighting fraud in the recession</b>				
12.	Have we reassessed our fraud risks because of the recession?		√	Robustness of controls deemed appropriate
13.	Have we amended our counter-fraud action plan as a result?		√	Deemed appropriate
14.	Have we reallocated staffing as a result?		√	Not deemed necessary
<b>Some current risks and issues</b>				
15.	Do we take effective action to ensure that social housing is allocated only to those in need?	√		
16.	Do we take effective action to ensure that social housing is occupied by those to whom it is allocated?	√		
17.	Are we satisfied that payment controls are working as intended?	√		
18.	Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?		√	Action point to be addressed. Currently Invitation to tender based on a rota system from the approved contractors list
19.	Are we satisfied that our recruitment procedures are: <ul style="list-style-type: none"> <li>• preventing employment of people working under false identities?</li> <li>• validating employment references effectively?</li> <li>• ensuring applicants are eligible to work in the UK?</li> </ul>	√	√	
20.	Where we are moving to direct payments (for example, social care) have we introduced suitable and proportionate control arrangements in line with recommended practice?	√		
21.	Are we effectively controlling the discounts and allowances we give to council taxpayers?	√		

## Appendix B

22.	Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud?	√		
23.	Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?	√		

**Status position against the proposed actions reported to this Committee in January 2009 (Paper H177).**

<b>Proposed Action</b>	<b>Status Position</b>	<b>Action Completed – Yes/No</b>
Proactive publicity for cases of proven fraud as a deterrent to others.	<p>The Fraud Team pre-advise selected departments within the Council of all benefit cases going to court and the resultant courts' decision.</p> <p>The Communications Team will report any significant/interesting benefit cases to the local press.</p>	<b>Yes</b>
Considering the risk of fraud as a key element of all new policy and procedural changes.	<p>The Council's main financial systems are annually audited by Internal Audit. Compliance testing against the Council's policies and procedures are undertaken, with fraud risks addressed.</p> <p>Internal Audit carries out an annual assessment of the areas most at risk of fraudulent activity with the Council's senior management. This contributes to the overall formation of audit coverage.</p> <p>In addition, Internal Audit liaise with Divisions when key changes are made, e.g. Affordable housing procedures</p>	<b>Yes</b>
Conducting enhanced security checks on relevant staff.	HR recruitment checks and internal job changes included in action plan for 2010/11.	<b>Yes</b>
The delivery of ethics training, which will cover this policy and raise awareness of fraud.	Ethical governance training was presented to the Senior Managers Group, Managers Forum and Team Leaders. The learning outcomes included raising awareness of the Council's policies and procedures relating to ethical governance, which included the Anti-Fraud & Corruption and Whistleblowing Policy, and how these can support staff in discharging their responsibilities.	<b>Yes</b>

<p>Regular internal publicity to promote awareness of the issues.</p>	<p>A series of fraud related communications have been written and published on the Council's intranet, BEN, to remind employees and Members of their responsibilities. These cover interests, gifts and hospitality; expense claims; protecting monies and equipment; and information security.</p> <p>The first edition of a bi-annual fraud awareness newsletter has been published to employees and Members. It has been designed to highlight areas of fraud and corruption in the workplace and to help employees and Members understand why we need to combat it effectively.</p> <p>An anti-fraud and corruption survey is to be developed and circulated to employees in the spring of 2010 to gauge and measure awareness. Remedial action will be taken where gaps in awareness are identified.</p>	<p><b>Yes</b></p>
<p>The revised policy will be placed on the 'Report a Fraud' section of the Council's website.</p>	<p>A fraud awareness page has been created on the Council's website which contains guidance on the Council's approach to fraud and corruption, as well as providing details on the methods available to raise concerns about suspected fraudulent or corrupt activity.</p> <p>Internal Audit to review the location of all the Council's governance documents to ensure they are located centrally to allow easy access to all staff/members/public/contractors/suppliers/other stakeholders.</p>	<p><b>Yes</b></p>
<p>Internal Audit will continue to annually raise awareness.</p>	<p>Specific areas to target, both internally and externally, have been identified and included within the proposed Anti-Fraud and Corruption Action Plan 2010/11.</p>	<p><b>Yes</b></p>
<p>Details of the policy are included with tender documentation.</p>	<p>Within the Council's contract tender documentation reference is made for the need to comply with the Council's Anti-Fraud &amp; Corruption and Whistleblowing Policy.</p>	<p><b>Yes</b></p>