

**REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR RESOURCES**

**COUNTER FRAUD STRATEGY**

**1. PURPOSE OF THE REPORT**

To seek endorsement of the amended Counter Fraud Strategy.

**2. RECOMMENDATION**

To endorse the City Council's Counter Fraud Strategy (the Strategy) set out at **Appendix 1**.

**3. REASONS FOR CONSIDERATION**

- 3.1. Good governance arrangements are essential when allocating and controlling Council resources and supporting effective delivery of the Council's strategic and operational objectives.
- 3.2. The maintenance and embedding of a counter fraud culture is essential if the Council is to maximise the use of its resources and minimise waste through inefficiency and/or fraudulent activity.
- 3.3. An effective strategy provides the basis for developing a counter fraud culture in the Council.
- 3.4. As part of the Council's control system, the strategy contributes positively to the assurance received by the Committee in respect of the effectiveness of the control environment.

**4 OVERVIEW OF THE STRATEGY**

The Strategy aims to protect public funds and assets by requiring compliance with regulations, rules, procedures and guidelines designed to promote the highest standards of conducts and behaviour.

The Strategy will continue to evolve and develop to reflect changes in legislation and best governance practice. Important themes developed within the Strategy approved at the June 2009 meeting are as follows:

- Strengthening of the requirement to act in accordance with Council procedures in all instances of suspected fraud and to report cases to the Police where strong evidence exists.
- Highlighting the Council's requirements for the highest levels of integrity in its partners and associated organisations.
- Increasing of pro-active measures of fraud detection, particularly by data matching.
- To help colleagues develop a consistent approach to dealing with fraud by referring to the appropriate Council processes and regulations, particularly Corporate Financial Process Rule and Standard (CFPRS) 18, which themselves are being developed to address the risks of fraud.
- Emphasising the need for colleagues to participate in fraud awareness training as prescribed by the Chief Finance Officer.

5. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

6. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

None

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# **Nottingham City Council - Counter Fraud Strategy**

## **1. GENERAL CONTEXT**

- 1.1 The Council aims to operate and maintain a clear system of integrated policies and procedures to assist in preventing fraud and hence minimise losses to the public purse. An overview of these arrangements will be maintained and good practice promoted through the use of regulation and various colleague and Councillor Codes.
- 1.2 The Council will put procedures in place to enable citizens and colleagues to raise concerns in the knowledge that these concerns will be properly and thoroughly investigated. These procedures will be continuously developed to improve the Council's response to fraud. Incidents of fraud will be published, sanctions will be imposed and redress will be sought where appropriate.
- 1.3 This Counter Fraud Strategy will continue to evolve and develop as circumstances change. Such circumstances will include changes in legislation, procedure, accountability within services and the Council's requirements. Substantive changes to the Strategy will be reported to Councillors for endorsement.

## **2. COUNTER FRAUD IN CONTEXT**

- 2.1 Fraud is defined under the Fraud Act 2006 as dishonest false representation or abuse of position with the intention of making a gain or causing a loss or a risk of loss to another. For the purpose of this Strategy the term is also used to describe a number of offences under former and current legislation including deception, forgery, theft, misappropriation, collusion, bribing and being bribed, conspiracy, money laundering offences, offences under the Identity Cards Act 2006, possession, making or supplying of articles for use in fraud or obtaining services dishonestly. The term is also used in respect of civil offences where claims can be made under the torts of deceit or negligence, breach of trust, or where a fidelity insurance claim may be made.
- 2.2 Therefore, 'fraud' can be used to describe a multitude of offences. In administering its responsibilities to protect public funds and assets, the City Council has developed this Strategy to deter fraud whether it is attempted from outside or within the Council.
- 2.3 This Strategy aims to protect public funds and assets by requiring compliance with regulations, rules, procedures, and guidance designed to encourage the prevention of fraud, promote detection and to identify clear responsibility for investigations. The impact of the Strategy will be to ensure that Council resources are not diverted away from delivery of the priorities within the Council Plan.

2.4 This Strategy is based on:

- the seven Nolan Principles for Public Life;
- 3 additional principles in the Relevant Authorities Order 2001;
- best practice as defined by the Audit Commission, and
- legal requirements including that incorporated in the Social Security Administration (Fraud) Act 1997, Public Interest Disclosure Act 1998, Competition Act 1998, Money Laundering Regulations 2007, Fraud Act 2006, Public Contracts Regulations 2006, Serious Crime Act 2007 and the Bribery Act 2010.

2.5 This Strategy is based on a series of inter-related procedures designed to frustrate any act of fraud. These cover:

Culture	Section 3
Prevention	Section 4
Detection and Investigation	Section 5
Training	Section 6

### 3. CULTURE

- 3.1 The City Council expects the culture of the Council to be one of honesty and opposition to fraud. Councillors and colleagues at all levels are expected to lead by example by personally complying with and ensuring wider and comprehensive adherence to rules, procedures and practices which should feature straightforward, effective, well documented controls that are legally sound and honest.
- 3.2 There is a requirement, because of the use of public monies, that all individuals and organisations associated in any way with the Authority will act with integrity, without thought to or actions involving fraud. Any allegation of fraud will be dealt with in accordance with the Council's Fraud Response Plan (see Financial Regulations, CFPRS 18). Fraud is likely to be considered as a serious issue if proven in disciplinary, standards or other inquiries.
- 3.3 All individuals (irrespective of their formal employment status) working for or with the Council are an important element in the Authority's stance on fraud. They are encouraged through established procedures detailed in [Financial Regulations](#), the [People Management Handbook](#), the [Code of Conduct](#) and the [Confidential Reporting Code](#) to raise any concerns that they may have on fraud issues where they are associated with the Authority's activities. The Council will support Councillors and colleagues in bringing such issues to its notice.
- 3.4 Colleagues and Councillors can raise such issues in the knowledge that they will be treated in confidence and properly investigated. The "How to raise a concern" section of the Confidential Reporting Code details the reporting options available to colleagues.

- 3.5 If colleagues or Councillors feel that they are not satisfied with the Council's response to concerns they have raised, they have the right to refer the issue to external agencies. Possible contact points are listed in the "How the matter can be taken further" section of the Confidential Reporting Code.
- 3.6 Citizens are also encouraged to report concerns through any of the routes included in the Confidential Reporting Code. Alternatively they can use the Council's complaints procedure or the dedicated fraud lines advertised in the Council's entries in relevant telephone directories.
- 3.7 The Council will respond to all allegations as outlined in the "How the Council will respond" section of the Confidential Reporting Code and in accordance with the requirements of Financial Regulation 2.4 and Corporate Financial Process Rule and Standard (CFPRS) 18 and associated procedural guidance.
- 3.8 However, it is important that colleagues avoid possible abuse of this process. If allegations are unfounded and malicious this is likely to be considered to be a serious disciplinary matter.

## **4. PREVENTION**

### **4.1 Colleagues**

- 4.1.1 The Council recognises that a key measure in preventing fraud is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential colleagues in terms of their propriety and integrity. In this regard, temporary and contract colleagues should be treated in the same manner as permanent colleagues.
- 4.1.2 Procedures for the recruitment of colleagues are detailed in the Code of Practice for Recruitment and Selection. The Code is included in the People Management Handbook. Only colleagues who have attended an in-house recruitment and selection training course should be involved in recruitment.
- 4.1.3 Where references are requested, the candidate's suitability for the post needs to be in accordance with the person specification. Honesty and integrity is recognised in law as a duty owed by the employee to the employer, and the Council requires all prospective and current employees to deal with the Council honestly.
- 4.1.4 Dishonest applications will be referred to the police if the evidence is considered to be sufficient.
- 4.1.5 Colleagues of the Council are also expected to abide by the Council's Code of Conduct for Employees which is included in the People Management Handbook. The requirement to observe the Code of Conduct is contained within the disciplinary procedure that forms part of the contract for all colleagues. The consequences of breaching the Code of Conduct are contained within the Council's disciplinary procedures. In addition, if colleagues are members of a

professional body they are also expected to follow the Code of Conduct relating to their professional qualifications.

- 4.1.6 The Code of Conduct includes the requirement for colleagues to formally declare any pecuniary interest in contracts or service provided as prescribed in Section 117 of the Local Government Act 1972.

## **4.2 Suppliers**

- 4.2.1 The City Council is under a mandatory obligation to remove from its select lists any supplier of work, goods, materials or services that has been found to infringe “the Chapter 1 prohibition” of the Competition Act 1998 as it relates to anti-competitive agreements, decisions and concerted practices.
- 4.2.2 The City Council is also under a mandatory obligation to exclude suppliers of work, goods, materials or services, from bidding for public sector contracts under the EU public procurement regime where they have been convicted of certain offences as detailed in the Public Contracts Regulations, 2006.
- 4.2.3 The City Council must enforce the obligations set out in 4.2.1 and 4.2.2 above when involved with the procurement of work, goods, materials or services. Guidance on enforcement is available at [Procedural Guidance Note: Competition Act 1998 and Public Contracts Regulations 2006](#).

## **4.3 Association with other organisations**

- 4.3.1 The City Council, when dealing with external organisations and/or partners, expects the highest level of integrity. Where this is not the case the Council will re-examine the relationship it has with these organisations and take any action deemed necessary to protect the public resources and demonstrate its intolerance to fraud.

## **4.4 Councillors**

- 4.4.1 Councillors are required to operate within:

- The Council's Standing Orders
- The Code of Conduct adopted by the Council on 18 May 2007
- The Council's Councillor / Colleague protocol
- National Standards for Councillors, England & Wales

- 4.4.2 These documents are in both the Year Book and the [Council's Constitution](#). They include requirements for Councillors to:

- register interests, including employment, business and property interests
- ensure they are not involved in matters or decisions where they have a conflict of interest.

Breaches of these requirements may be referred to the appropriate standards body.

4.4.3 Councillors should raise any concerns about fraud through the avenues detailed in the Strategy, but must avoid raising unfounded malicious allegations which would breach the Code.

## **4.5 Systems**

4.5.1 The Council's Chief Finance Officer (CFO) has a statutory responsibility under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Council's financial affairs and has developed Financial Regulations and Corporate Financial Process Rules and Standards (CFPRS) to assist in discharging this responsibility. In addition, there is a requirement to comply with the Accounts and Audit Regulations 1996, 2003, 2006 and 2009, the Audit Commission Act 1998 and the Local Government Act 2003 relating to accounting records, control systems and audit.

4.5.2 The Financial Regulations and CFPRS require colleagues, when dealing with the Council's financial affairs, to act in accordance with sound practices and outlines systems, procedures and responsibilities of colleagues. Colleagues involved in finance are required to attend relevant and effective departmental training programmes which promote and endorse the requirements of Financial Regulations. This programme of training will be developed to include a formal accreditation process to ensure that only appropriately trained colleagues can access main financial systems unsupervised.

4.5.3 Corporate Directors are responsible for the financial systems in their Departments and are required to comply with Financial Regulation 2.3 which establishes the rules through which they must operate. This responsibility includes considering the risk of fraud as defined by this strategy.

4.5.4 The Council has developed and is committed to continuing with systems and procedures that incorporate efficient and effective internal controls that include adequate separation of duties. Their existence and effectiveness is independently monitored and assessed by Internal Audit, who carry out a comprehensive programme of audits targeted at key risk areas.

4.5.5 The City Council has appointed the Director of Strategic Finance to act in compliance with the Money Laundering Regulations (Financial Regulation 2.2.3 (g)) and has imposed a maximum limit of £5,000 for cash transactions (CFPRS 12; 5.2).

4.5.6 Corporate Directors are responsible for ensuring that colleagues handling cash transactions have been recruited appropriately and are aware of their responsibilities as detailed in the relevant legislation.

## **4.6 Combining with Others**

4.6.1 Arrangements are in place and continue to develop and encourage the exchange of information between the Council and other agencies on national and local fraud activity in relation to Local Authorities. These include but are not limited to:

- The Police
- The Audit Commission (National Fraud Initiative) or its equivalent
- The Audit Commission and its successors through reviews and the distribution of fraud warnings
- National Counter Fraud Network
- DWP – Job Centre Plus
- Local Authorities Investigating Officers Group (LAIOG)
- UCAS (Student Awards)
- Auditors' networks, locally and nationally

4.6.2 The National Fraud Initiative (NFI) is part of the statutory audit process currently undertaken by the Audit Commission. Local government, health and other public bodies are required to provide data from key systems which is cross matched to identify inaccuracies or potential fraud. The City Council will continue to actively participate in the NFI or similar exercises and will provide all mandatory data sets and all optional data sets where practical and effective. The Council will allocate appropriate resources for the investigation of the data matches returned and to respond promptly to queries from other participating bodies. The data sets currently provided include the following:

- Payroll, Housing Benefits, Student Awards, Creditor Payments, Rents and Right to Buy, Council Tax, Electoral Register, Insurance Claims, Blue Badge Holders, Private Residential Care Home Residents, Market Traders, Taxi Drivers, Concessionary Fares, Residents Parking and Licenses

4.6.3 These arrangements provide a valuable means of combating potential criminal activity of a fraudulent nature against the Council and other public sector bodies. Such collaboration has been very successful in reducing the risk of external fraud.

## **5. Detection and Investigation**

5.1 The number and extent of preventative measures, 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 As part of its proactive programme of work, the Council will undertake data matching exercises to assist in the detection of fraudulent activity. Using resources and information available, this work will be carried out in accordance with any data matching policy of the Council. Once these exercises are complete, the Council will allocate sufficient resources to provide a prompt resolution to any queries or apparent fraudulent activity.

5.3 It is often the alertness of colleagues and citizens to such indicators that enables detection to occur and the appropriate action to take place when there is evidence that fraud may be in progress.



- 5.4 Despite the best efforts of managers and auditors, many internal frauds are discovered by chance or third party information, and the Council has in place arrangements to ensure that such information is properly dealt with as set out in Section 3 of this Strategy.
- 5.5 The investigation of suspected internal irregularities such as fraud is normally carried out or directed by Internal Audit on behalf of the CFO and the Council's Monitoring Officer. The investigation of irregularities should be in accordance with Financial Regulation 2.4.2 and CFPRS18. The CFO has a responsibility for deciding on the course of the investigation. If the CFO, Head of Internal Audit or responsible Corporate Director considers that a loss may have occurred as a result of irregular expenditure or fraud, they may, in consultation with the Chief Executive, involve the Police.
- 5.6 Requesting, agreeing to receive or accepting an advantage, whether or not it is actually received, linked to improper performance of a function or activity and requesting, acquiescing to, or assenting to improper performance of a function or activity in anticipation of an advantage are serious criminal offences. The Code of Conduct for Employees will reflect and incorporate this. It is normal practice for any such allegation to be referred to the Police.
- 5.7 External frauds perpetrated within Housing and Council Tax Benefits are investigated by a dedicated team within the Resources Department. There are arrangements in place to ensure that information or concerns received either internally or externally are properly dealt with, as set out in Section 3 of this Strategy. The work of this team is subject to internal system reviews by Internal Audit and external reviews by the Audit Commission.
- 5.8 Corporate Directors will arrange for all instances of suspected fraud to be reported to the Head of Internal Audit who will maintain a central register, in line with expected best practice and monitor the progress of each case. Investigations will be carried out under the management of the appropriate Corporate Director as directed by the Head of Internal Audit in consultation with the CFO and the Council's Monitoring Officer.
- 5.9 This reporting procedure is essential as it ensures:
- Consistent treatment of information regarding any suspected fraud.
  - An effective investigation by an experienced colleague and/or appropriate direction provided by Internal Audit.
  - The proper implementation of a structured response to any suspected act of fraud including improvements to identified weaknesses in internal controls
- 5.10 The Head of Internal Audit will report at least quarterly to the CFO with a summary of all fraud cases recorded over the period.
- 5.11 Dependent upon the nature and anticipated extent of the allegations, auditors will normally work closely with management and other agencies such as Nottinghamshire Police to ensure that all allegations and evidence are properly investigated and reported upon. Where a Police investigation is running concurrently with an internal investigation, the requirements of the Police

investigation will take precedence over the internal investigation. This is necessary to minimise any impact the internal investigation has on the Police investigation and the integrity of the evidence collected.

- 5.12 Within the context of 5.11, the Council will normally ask the Police to investigate whenever it considers that it has discovered strong evidence of fraud.
- 5.13 The Council's Disciplinary Procedures will be used where the outcome of an investigation indicates improper behaviour, whether or not the matter has been referred to the Police.
- 5.14 Sometimes the Council's external auditors (currently the Audit Commission) may also carry out investigation into suspected fraud and will do so in accordance with their established procedures.
- 5.15 The City Council will seek the strongest available sanctions against any individual or organisation who commits fraud against the Council. The full range of sanctions will be applied consistently and fairly, taking a cost effective approach, making robust and transparent decisions. Actions may include prosecution, civil proceedings, disciplinary action and publication of investigation outcomes. The City Council expects contractors and partners to take similarly robust sanctions.

## **6. Training**

- 6.1 It is recognised that the success of this Strategy and the organisation's general credibility will depend largely on the effectiveness of communication, programmed training, and responsiveness of colleagues throughout the Authority.
- 6.2 The Council supports management in the provision of ongoing financial awareness training at both corporate and departmental level, and the mandatory training of colleagues dealing with finance, as required by Financial Regulations. Colleagues are also expected to participate in fraud awareness and related training as prescribed from time to time by the CFO.
- 6.3 These training requirements should be incorporated into colleague induction training, the personal development process and any formal accreditation for colleagues involved in financial processes. Accreditation will require colleagues to acknowledge an understanding of their responsibilities within the procedures.
- 6.4 Appropriate training will be provided to auditors and other investigators regarding the investigation of suspected fraud, and this will be reflected in their individual training plans.