

**NORTH YORKSHIRE COUNTY COUNCIL**

**COUNTER FRAUD STRATEGY**

**February 2011**

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## 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 The County Council 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 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

1.4 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
- Audit Commission / External Auditor
- Ofsted
- the public/service users (through the County Council's Complaints Procedures)
- Central Government Departments
- HM Revenue and Customs
- Standards for England

1.5 The Corporate Director - Finance and Central Services 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.

## 2.0 **POLICY FRAMEWORK FOR PREVENTING FRAUD**

2.1 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 – Finance and Central Services reports on the Policy Framework and level of fraud detected within the County Council each year. This Committee will approve any changes to the Policy Framework.

2.2 The key policies comprising the 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.

(b) **Whistleblowing Policy**

Whistleblowing remains the most common way that frauds are detected in large organisations such as the County Council. In 2006/07 this Policy was extended to allow contractors (and their staff) to raise allegations 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) **Fraud and Loss Risk Assessment**

This is an annual assessment which sets out the 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. Its aim is to analyse the fraud / loss risks facing the County Council and then direct internal audit work to specific areas to help detect fraud and loss. This Assessment will be reviewed by the Audit Committee on an annual basis.

### 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** which is responsible for addressing issues highlighted in the Fraud and Loss Assessment as areas of high risk
- the **Corporate Director – Finance and Central Services**, as the Section 151 officer, has a specific legal responsibility to ensure adequate and effective anti-fraud/loss arrangements are in place
- the **Outposted Accountants** from the Finance and Central Services Directorate are responsible for ensuring that the Section 151 role of the Corporate Director – Finance and Central Services is discharged in each Directorate. This includes identifying and reporting any matters they consider to be of concern
- the **Head of Internal Audit, Veritau Ltd** (HIA) is responsible for developing the Counter Fraud Strategy of the County Council, being the Money Laundering Reporting Officer. The HIA is also the investigating officer for any issues reported under the Whistleblowing Policy
- 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 Group**, 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 the potential for losses due to fraud and corruption are included in the creation of Risk Registers where appropriate
- 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 positively encouraged to raise any concerns that they may have. They can do this in the knowledge that such concerns will be treated in confidence, be properly investigated and are fairly dealt with. If necessary a route, other than a normal line manager or Directorate finance officer may be used to raise such concerns. Examples of such routes are via:-

- a Corporate Director
- Internal Audit Service – Veritau Ltd
- the Monitoring Officer
- 24 Hour Anti-Fraud Confidential Hotline

- 4.2 The County Council operates a hotline number for members of staff or contractors to report concerns. The hotline is operated by **Veritau Ltd**, the Council's Internal Audit Service and every attempt is made to protect the confidentiality of callers. However, it is acknowledged that the process of investigating a complaint or allegation may inevitably lead to colleagues speculating on the identity of the source of that allegation. The telephone number for the hotline is 01609 760067.
- 4.3 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 to any employee on request. Employees are encouraged to report concerns to management, and a number of alternative reporting mechanisms are available if an employee feels unable to raise a matter with their immediate line management. Employees may also use the hotline number if they wish.
- 4.4 Employees or members of the public may report concerns by either e-mail or by the completion of an e-form if they wish. The email address is:  
[whistle.blower@northyorks.gov.uk](mailto:whistle.blower@northyorks.gov.uk).
- 4.5 The County Council, including Members, will be robust in dealing with financial malpractice. Senior service managers are expected to deal swiftly and firmly with those who defraud the County Council or who commit corrupt acts involving the County Council.
- 4.6 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 – Finance and Central Services and/or 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.
- 4.7 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 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, and the Anti-Money Laundering 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

### Members

#### 5.1 Members are required to operate within:

- the Members' Code of Conduct
- County Council Standing Orders
- Sections 94-96 of the Local Government Act 1972
- Local Authorities Members Interest Regulations 1992 (SI.618)

#### 5.2 These matters and other guidance are specifically brought to the attention of Members in the Member's Handbook.

### Employees

#### 5.3 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.

- 5.4 Employee recruitment should therefore be undertaken in accordance with the Recruitment and Selection procedures laid down by the Assistant Chief Executive (HR and OD). In particular, written references covering the honesty and integrity of potential employees should be obtained before employment offers are made. Other clearances, for example, Criminal Records Bureau checks, should be obtained where necessary.
- 5.5 Employees are expected to abide by a Code of Conduct which sets out the County Council's requirement on personal conduct. Employees are also expected to follow any Code of Conduct related to their personal Professional Regulating body.
- 5.6 The County Council has in place a Disciplinary Procedure.
- 5.7 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.
- 5.8 The County Council has in place a Constitution containing Contract, Financial and Property Procedure Rules that provide a framework of control. Employees must operate within these Rules at all times.
- 5.9 The County Council maintains a register of business interests for all key staff (Grade Band 12 and above) and there is an expectation that all relevant interests will be declared.

### **Contractors**

- 5.10 The County Council expects the highest standards of conduct from all its contractors and the staff they employ. The Whistleblowing Policy has been extended to cover all these staff and work is ongoing with the Corporate Procurement Group to improve existing procedures for detecting fraud during the procurement process.

### **Combining with other agencies**

- 5.11 Arrangements are in place, and continue to be developed, to encourage the exchange of information 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.

- 5.12 These public agencies include:-

- Police
- Society of County Treasurers
- Local, Regional and National Auditor Networks
- the National Anti Fraud Network
- Audit Commission
- Office of Fair Trading
- Department for Works and Pensions



- Other Local 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
- 6.5 Depending on the nature and anticipated extent of the allegations, Internal Audit normally work closely with management and other agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon.
- 6.6 The County Council's Disciplinary Procedures will be used where the outcome of the audit investigation indicates improper behaviour by a member of staff.
- 6.7 Where impropriety is discovered and there is evidence that a criminal offence may have occurred, the County Council's policy is that the Police will be informed where appropriate but that this will not delay the matter being dealt with on an internal basis. Referral to the Police is a matter for the Head of Internal Audit following consultation with the Chief Executive, the Corporate Director – Finance and Central Services, the Monitoring Officer and the relevant Service Corporate Director(s).
- 6.8 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.

7.2 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 there from
- 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 criminal offences are involved then cases will normally be referred to the Police. However, such investigations often take time. The County Council may also decide not to pursue matters until the Police investigation is concluded. If the Police decide to charge the employee, the matter can also take a long time to come to court. 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 such staff.

## **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 training. This will include the use of the company's online training package. A Guide for Managers will also be made available on the Intranet.

## **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 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 operational activities.

9.2 To this end the County Council maintains a continuous overview of such arrangements in particular, through its Corporate Director – Finance and Central Services, 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.