

# Anti – Fraud and Corruption Strategy

## Summary of responsibilities

### 1. Foreword

1.1 Dudley MBC is committed to protecting the public funds with which it has been entrusted. The minimisation of losses due to fraud and corruption is essential to ensure that resources are used for their intended purpose of providing services to the citizens of Dudley, and also for ensuring public confidence in the integrity and competence of the Council.

1.2. To achieve this the Council has in place an extensive framework of controls (such as, for example, Standing Orders and Financial Regulations), which are designed, amongst other things, to prevent, detect and deter fraud and corruption.

1.3. Within this framework of controls, different parts of the Council have different responsibilities. The primary purpose of this summary is to consolidate in a single document, and also to clarify, the various roles and responsibilities in relation to fraud and corruption of:

- The Director of Finance
- The Chief Executive
- Service Directors (and their managers)
- Employees
- Internal Audit
- External Audit
- The Benefits Fraud Unit
- Members
- The Audit Committee
- The Standards Committee

1.4 The Council already has a well-established Confidential Reporting Policy in operation, which is intended to encourage and enable employees to raise serious concerns. Because employees are often the first to realise when something is seriously wrong, the Confidential Reporting Policy can play an important role in bringing fraud and corruption to light. However, the Confidential Reporting Policy is both:

- Broader than this Strategy document in that it is intended to apply to all matters of concern to employees, not just fraud and corruption.

- Narrower than this Strategy document because it is focused on employees and how they can report concerns, whereas this strategy is about all the duties and responsibilities in relation to fraud and corruption of the various parties listed in 1.3 above.

### 2. Definitions

2.1. In this policy statement, 'fraud and corruption' is intended to cover any attempt either:

- to dishonestly obtain cash, assets or other benefits; or
- to improperly influence decisions.

Fraud typically involves distorting records to conceal misappropriation. Corruption typically involves giving or receiving bribes with a view to influencing decisions.

Financial Regulations also refer to 'losses or irregularities' relating to financial matters. In this document anything that fits that description should also be regarded as falling under the definition of 'fraud or corruption'.

2.2. Examples of fraudulent or corrupt acts would include:

- Submitting invoices for work not done.
- Falsifying or withholding information to obtain Housing Benefit.
- Using Council equipment without permission for private purposes.
- Using Council materials for private purposes.
- Accepting excessive gifts or hospitality.

2.3. The above is obviously not an exhaustive list. In case of doubt, Internal Audit Services should be consulted for further guidance.

2.4. In carrying out their duties for the Council, members and employees may encounter fraud and corruption not directly connected with the Council e.g. a consumer protection officer who discovers a fraud by a commercial organisation on the public. This document does not apply to such cases.

### **3. The Role of the Director of Finance**

3.1. As the Council's 'responsible financial officer' under Section 151 of the Local Government Act 1972, the Director of Finance has overall responsibility for the proper conduct of the Council's financial affairs. More specifically, under the Accounts and Audit Regulations 2003, he is required to ensure that the accounting control systems include:

'Measures to enable the prevention and detection of inaccuracies and fraud'.

'Identification of the duties of officers dealing with financial transactions and the division of responsibilities of these officers in relation to significant transactions'.

3.2. The above responsibilities are discharged through a whole framework of internal controls including:

- The Financial Management Regime

- Contracts Standing Orders
- Financial Regulations

all of which form part of the Council's Constitution. In addition, the Director of Finance may prescribe more specific controls and procedures against fraud and corruption for individual systems.

- 3.3. Although the Director of Finance is responsible for defining the system of internal controls to prevent/detect fraud and corruption, he is not directly responsible for its implementation, except in the Finance Directorate and in any other areas of the Council where he has direct line management responsibilities.
- 3.4. Under the Council's Financial Regulations, the Director of Finance must be notified of any known or suspected 'losses or irregularities concerning cash, property, stores, contracts or other financial matters'. This of course encompasses cases of fraud and corruption. He is then responsible for:
- Determining which cases should be referred to the police. (All cases where it appears a crime has been committed must be reported unless there are very exceptional circumstances).
  - Reporting serious losses to the Audit Committee.
- 3.5. The Director of Finance is also responsible for:
- determining whether to prosecute in cases of fraud or corruption in order to recover losses, deter others, or otherwise serve the public interest.
  - ensuring that, where appropriate (as for examples in relation to Housing and Council Tax Benefit Fraud), prosecution policies are formulated and applied so that consistent practice can be more readily achieved.
  - taking any other appropriate action in order to recover losses e.g. reclaiming (former) employees' superannuation contributions.

The general policy of the Council is to pursue the recovery of losses as far as realistically possible.

- 3.6. Where, following an investigation into suspected fraud or corruption, a service Director decides not to instigate disciplinary proceedings, the Director of Finance may refer the matter for consideration by the Chair of the Audit Committee in consultation with the Chief Executive, if he disagrees with that Service Director's decision.

Under the Accounts and Audit Regulations 2003, the Director of Finance is responsible for maintaining 'an adequate and effective internal audit'. As part of that overall responsibility the Director of Finance must assure himself that Internal Audit adequately and effectively reviews the Council's controls against fraud and corruption.

- 3.8. The Director of Finance has overall responsibility for ensuring that the Benefits Fraud Unit in Benefits Services performs its role effectively.

#### **4. The Chief Executive**

- 4.1. The Chief Executive must ensure that members receive appropriate training, guidance and advice on their responsibilities in relation to the prevention and detection of fraud and corruption.
- 4.2. The Chief Executive should periodically remind members and employees of their responsibility to comply with the requirements of their respective codes of conduct in the Council's constitution e.g. with regard to the declaration of interests, conflicts of interest etc.
- 4.2. Where the Director of Finance disagrees with a decision of a Service Director not to instigate disciplinary proceedings in a case of fraud or corruption, he may refer the matter for consideration by the Chair of the Audit Committee in consultation with the Chief Executive. The Chief Executive must advise the Chair of the Audit Committee on what action he considers appropriate.
- 4.3. As a deterrent to others, the Council's general policy is to give maximum publicity to proven cases of fraud and corruption committed either against the Council, or by Council members or employees in their official capacity. A case would normally be considered proven if:
- A person(s) - i.e. a member of the public, employee of the Council or elected member - had been found guilty in criminal proceedings.
  - An employee(s) had been dismissed for gross misconduct (where no further appeals were available).
  - The Standards Board or the Standards Committee had found a member(s) culpable.

The Chief Executive has overall responsibility for the implementation of this policy.

#### **5. Service Directors (and managers to whom they delegate these responsibilities)**

(This section includes the Chief Executive and Director of Finance in their capacity as Directorate Managers).

- 5.1. Service Directors are responsible for preventing and detecting fraud and corruption in their services by maintaining effective control systems and ensuring that staff adhere to them.
- 5.2. Specifically, Directors and their Senior Managers must ensure that:
- The framework of internal controls set out in the Council's Constitution including Contracts Standing Orders, the Financial Management Regime and Financial Regulations are observed.
  - Any other controls required by the Director of Finance are fully implemented (this includes but is not limited to recommendations made by Internal Audit).

In addition they should put into operation whatever other controls they consider necessary to prevent/detect fraud and corruption in the activities for which they are responsible. In doing so, they should take account of the recommendations and advice of Internal Audit, External Audit and the Risk Management and Insurance Section of the Finance Directorate.

- 5.3. Directors must ensure that staff in their Directorates are fully conversant with:
- Those parts of the Financial Management Regime, Contracts Standing Orders and Financial Regulations which are relevant to their jobs.
  - The requirements of the Employee's Code of Practice in the Constitution e.g. in relation to declarations of interest.
  - Any other relevant parts of the Constitution.

They should ensure that staff receive appropriate training in these matters and also, particularly in areas of high risk of fraud and corruption, general training in fraud awareness.

- 5.4. A key preventative measure against fraud and corruption is the appointment of staff of known good character. Directors should therefore ensure that:
- references (preferably in writing) testifying to the honesty and integrity of potential employees are obtained before a person is appointed;
  - in appropriate cases, checks are made with the Criminal Records Board.

- 5.5. Under Financial Regulations Directors must notify the Director of Finance of any known or suspected 'losses or irregularities concerning cash, property, stores, contracts or other financial matters'. This includes cases of fraud and corruption. In practice the Head of Internal Audit Services may be notified of such cases, on behalf of the Director of Finance.

*(N.B. If a case is concerned with Housing or Council Tax Benefit, the Principal Officer in the Benefits Fraud Unit may be informed, unless Benefit Services staff may*

*themselves be implicated, in which case the notification should be made to the Director of Finance or the Head of Internal Audit Services)*

- 5.6. Directors should not notify the police of cases of fraud and corruption. This is the responsibility of the Director of Finance.

*(N.B. There is an exception where the circumstances clearly indicate that losses have resulted from forced entry. In that case, the police should be notified directly and the Risk Management and Insurance Section (RMIS) of the Finance Directorate informed. RMIS should notify Internal Audit if it is considered that there may have been weaknesses in security arrangements.)*

- 5.7. Directors should not authorise any investigation of fraud or corruption, or make suspects aware that they are under suspicion, without the prior agreement of the Head of Internal Audit. In particular they should not undertake any surveillance of a suspect unless it has been approved under the Council's RIPA Code. In cases of fraud and corruption, authorisation under the RIPA Code must be by the Head of Internal Audit, the Director of Finance, Chief Executive.

- 5.8. Where it is agreed with the Head of Internal Audit that an investigation into fraud or corruption should be undertaken by staff in a Service Directorate, no final decision on whether to proceed with disciplinary action should be taken until Internal Audit has had the opportunity to review the investigation and undertake any further work they consider necessary.

- 5.9. Directors are responsible for ensuring that information relating to their services produced by Audit Commission's annual National Fraud Initiative is thoroughly investigated.

## **6. Employees**

- 6.1. All employees should familiarise themselves with the Employee's Code of Conduct (which forms part of the Council's Constitution) and ensure they comply with its requirements. Specific requirements relating to the prevention and detection of fraud and corruption and concerned with:

- Declaration of relationships with contractor.
- Relationships with applicants for employment.
- Personal interests in conflict with the Council's interests.
- The separation of duties in tendering.
- Giving/receiving gifts.
- Giving /receiving hospitality.

In addition, staff are expected to observe any Code of Conduct laid down by any professional body to which they belong, where membership is necessary or relevant to their job with the Council.

6.2. All employees should familiarise themselves with:

- Those parts of the Financial Management Regime, Standing Orders and Financial Regulations which are relevant to their job.
- Any other relevant parts of the Council's Constitution.

Employees should ensure that they comply with all relevant requirements. In case of doubt about which requirements are relevant to them, or how these requirements apply, they should seek guidance from their managers.

6.3. Under Financial Regulations, an employee must inform the Director of Finance of any known or suspected "losses or irregularities concerning cash, property, stores, contracts or other financial matters". This includes any instances of fraud or corruption. Normally employees should notify the Director of Finance of such cases through the management in their own Directorate. However, if an employee has concerns about raising the matter with their own Directorate management, the Council's Confidential Reporting Policy sets out how it can be reported to a number of other contacts, anonymously if necessary.

## 7. Internal Audit

7.1. Management, not Internal Audit, are primarily responsible for the prevention of fraud and corruption. Internal Audit's main role is to independently review how effectively management are managing and controlling their risks, including the risks of fraud and corruption.

7.2. The Head of Internal Audit must ensure that the resources that Internal Audit apply to fraud and corruption work are appropriate to the risks and are used effectively.

7.3. Where Internal Audit find that controls against fraud and corruption are inadequate in principle or ineffective in practice they must report this to management together with recommendations on how the situation can be improved.

7.4. Where cases of known or suspected fraud have been identified, the Head of Internal Audit in consultation with management in the relevant Directorate is responsible for deciding who should investigate them, whether

- Internal Audit
- Staff in the Directorate
- Other
- A combination of the above

- 7.5. Where, an investigation into fraud and corruption has not been conducted by Internal Audit, they must have the opportunity to review that investigation before any final decision on disciplinary proceedings is made and to request or conduct any further work which they consider necessary.

*(NB This would not apply to any case which had been reported directly to External Audit and which they had decided to investigate themselves).*

- 7.6. Internal Audit is responsible for coordinating and overseeing:
- the processing of data received through the Audit Commission's annual data matching exercise, the National Fraud Initiative
  - reporting back to the Audit Commission on the results.
- 7.7. Internal Audit is also responsible for coordinating the annual returns to the Audit Commission detailing any significant cases of fraud and corruption.
- 7.8. Internal Audit may review the operation of Housing Benefit Fraud Unit as part of its programme of planned audits, but it has no responsibility for investigating cases of fraud or corruption relating to Housing or Council Tax Benefit. The only exception to this is where there is a possibility that Benefits Service staff may themselves be implicated in the fraud or corruption. In such cases the Director of Finance, in consultation with the Head of Internal Audit must decide how such cases are to be investigated.

## **8. External Audit**

- 8.1. As part of their statutory responsibilities, External Audit must determine whether the Council has adequate arrangements for standards of financial conduct and preventing and detecting fraud and corruption.
- 8.2. Where information about known or suspected fraud or corruption at the Council is supplied to External Audit, they may decide to investigate and report on the matter themselves.

## **9. Benefit Fraud Unit**

- 9.1. The Benefit Fraud Unit, within Benefit Services, is responsible for investigating all cases of Housing Benefit and Council Tax fraud with the exception of any in which Benefits Services staff may themselves be implicated. The Director of Finance in consultation with the Head of Audit Services will decide how such cases should be investigated.

- 9.2. The Benefits Fraud Unit is also responsible for investigating and reporting information on Housing Benefit and Council Tax benefit cases identified

through the Audit Commission annual data matching process (the National Fraud Initiative).

- 9.3. The Head of Benefits Services is responsible for developing a prosecution policy for cases of fraud and corruption relating to Housing or council tax benefits, and for ensuring that the policy is consistently applied.

## 10. Members

10.1. Members should ensure that they understand and comply with requirements of the Members Code of Conduct (which forms part of the Council's Constitution). Specific requirements relating to the prevention of fraud and corruption are concerned with:

- Disclosure of interests
- Registration of interests
- Recording of gifts and hospitality

10.2. Members involved in planning decisions should familiarise themselves with the Code on Planning and comply with its requirements.

10.3. Members should ensure that they understand and comply with:

- Those parts of the Financial Management Regime, Standing Orders and Financial Regulations which are relevant to their role.
- All other relevant parts of the Council's Constitution.

10.4. Where members are uncertain about any of their responsibilities in relation to the prevention and detection of fraud and corruption, either in general or in particular cases, they should seek advice from the Chief Executive or the Director of Finance.

10.5. Under the Council's Financial Regulations Members must inform the Director of Finance of any known or suspected 'losses or irregularities concerning cash, property, store, contracts or other financial matters'. This of course includes any instances of fraud or corruption. If these cases involve other members, they should also inform the Chair of the Standards Committee.

10.6. Members should not normally refer cases of known or suspected fraud or corruption directly to the police. Under the Council's Financial Regulations, this is the responsibility of the Director of Finance.

## 11. The Audit Committee

11.1. Under the Council's Constitution the Audit Committee is responsible for overseeing that:

- There are proper arrangements for the conduct of the Council's financial affairs (this of course includes proper arrangements for the prevention and detection of fraud).
  - There are effective internal and external audit arrangements, (again this would include effective arrangements for the audit of controls to prevent and detect fraud or corruption).
- 11.2. Under the Council's Financial Regulations, the Director of Finance must report any serious (financial) losses or irregularities to the Audit Committee. The Committee must determine what action, or further action, should be taken in such cases.
- 11.3. Where the Director of Finance disagrees with the decision of a Service Director not to instigate disciplinary proceedings in a case of fraud or corruption, he may refer the matter to be considered by the Chair of the Audit Committee in consultation with the Chief Executive. The Chair of the Audit Committee, in consultation with the Chief Executive, must determine what action shall be taken.

## **12. The Standards Committee**

- 12.1. The Standards Committee must refer any case of known or suspected fraud or corruption involving a member of the Council to the Standards Board.
- 12.2. As part of its periodic review of the Code of Conduct for Members, the Standards Committee should examine the requirements of the Code relating to the prevention, detection and deterrence of fraud or corruption by Members. They should ensure that these requirements are as relevant, rigorous and comprehensive as practically possible.
- 12.3. The Standards Committee should ensure that work is undertaken to give them assurance that the requirements of the Members Code relating to the prevention, detection and deterrence of fraud or corruption are being observed.