



Coventry City Council

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## Public report

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### Report to

Audit Committee  
Cabinet Member (Strategic Finance and Resources)

22<sup>nd</sup> August 2012  
12<sup>th</sup> September 2012

### Name of Cabinet Member:

Cabinet Member (Strategic Finance and Resources) – Councillor Duggins

### Director approving submission of the report:

Director of Finance and Legal Services

### Ward(s) affected:

City Wide

### Title:

Fraud and Corruption Strategy

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### Is this a key decision?

No

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### Executive summary:

The Fraud and Corruption Strategy explains the Council's underlying approach to fraud and corruption, documenting the roles and responsibilities of Members and officers, as well as explaining key aspects of the Council's process for responding to this risk.

The purpose of the report is for the Audit Committee to consider the Fraud and Corruption Strategy, as set out in Appendix One and to recommend to the Cabinet Member (Strategic Finance and Resources) that the Strategy be approved.

### Recommendations:

Audit Committee is recommended to:

1. Consider the revised Fraud and Corruption Strategy (attached as Appendix One), and to recommend to the Cabinet Member (Strategic Finance and Resources) that the Strategy be approved.
2. Note the planned focus of work for the remainder of 2012-13 to implement the Strategy.

The Cabinet Member (Strategic Finance and Resources) is recommended to:

1. Consider the comments of the Audit Committee.
2. Approve the Fraud and Corruption Strategy (attached as Appendix One).

**List of Appendices included:**

Appendix One – Fraud and Corruption Strategy.

**Other useful background papers:**

None

**Has it or will it be considered by scrutiny?**

No

**Has it, or will it be considered by any other council committee, advisory panel or other body?**

No

**Will this report go to Council?**

No

**Report title:**

Fraud and Corruption Strategy

**1. Context (or background)**

- 1.1 The United Kingdom public sector maintains high standards of probity and has a good reputation for protecting the public purse. Sound systems of public accountability are vital for effective management and for maintaining public confidence. The minimisation of losses from fraud and corruption is essential to ensure that resources are used for their intended purpose, providing services to the citizens of Coventry.
- 1.2 The profile given to fraud within Local Authorities has increased recently through the publication of "Fighting Fraud Locally – The Local Government Fraud Strategy". The key messages from this document are:
- Tackling fraud is seen as an integral part of putting the country's finances back on a stable footing and ensuring that tax-payers hard earned money is used to protect resources for frontline services.
  - Fraud has a serious effect on all parts of the economy and the cost of fraud to local government is estimated at £2.2 billion a year.
  - Better prevention, detection and recovery of fraud will help reduce the financial pressures on Councils.
- 1.3 With these increased expectations, our first step was to review the Council's existing Strategy in respect of fraud and corruption to ensure that it provides a rigorous framework to respond to these challenges. Given the Audit Committee's responsibility, as reflected in its terms of reference is '*to monitor Council policies on "whistle blowing" and the anti-fraud and anti-corruption strategy*', this report allows the Audit Committee to comment on the content and scope of the revised Strategy, prior to it being considered for approval by the Cabinet Member (Strategic Finance and Resources).
- 1.4 National initiatives such as the expansion of direct payments and the localisation of council tax support (along with the positive outcomes achieved from the results of the recent single person discount exercise) are changing the focus of fraud risks and will shape the way the Strategy is implemented. This report re-confirms our approach and sets out for Members the specific actions we will be taking to deal with the changing landscape.

**2. Options considered and recommended proposal**

- 2.1 The proposed Fraud and Corruption Strategy is attached at Appendix One. The Strategy was last updated in 2009 and although "Fighting Fraud Locally – The Local Government Fraud Strategy" uses different terminology to that reflected in the existing Council Strategy, we have concluded that overall, the approaches are not significantly different.
- 2.2 The updated Strategy clarifies and formalises the following aspects of the Council's response to the risk of fraud and corruption by:
- Outlining the range of interrelated policies, procedures and guidance that provide a corporate framework to underpin counter fraud activity within the Council.
  - Providing clarity on the roles and responsibilities of key groups / individuals that support the Council's response to fraud and corruption.

- Providing an overview of the Council's approach to fraud and corruption with the aim of:
  - Enhancing and maintaining an anti-fraud culture.
  - Actively encouraging prevention and detection of fraud and / or corruption.
  - Acting as a deterrent to those thinking of committing fraudulent and / or corrupt acts.
  - Identifying a clear pathway for investigation and remedial action.

2.3 There are a number of developments planned to support the implementation of the Strategy. These are outlined in the table below.

Area	Development
Overarching Approach to Fraud	(1) To undertake a survey to understand the level of awareness within the Council of key aspects of the revised Fraud and Corruption Strategy.  (2) To review the fraud risk assessment to ensure resources continue to be focused on high risk areas.
Fraud Awareness	(3) To review key fraud guidance, e.g. managers / employees guide to fraud awareness to ensure they remain consistent with the key messages of the revised Strategy.  (4) To implement an e-learning module on fraud awareness.
Fraud Prevention	(5) To undertake proactive fraud reviews / assessments of all the relevant fraud risks identified in "Fighting Fraud Locally – The Local Government Fraud Strategy" in order to determine those areas that pose the greatest risk to the Council. Areas identified are – council tax fraud, procurement fraud, grant fraud, employee fraud, schools and personal budgets.  (6) To review internal audit coverage of key Council business systems to ensure adequate focus is given in such reviews to the risk of fraud and error.
Fraud Detection	(7) To look at opportunities for using data sources within the Council to assist in detecting fraud.

2.4 The Council has a dedicated post for corporate fraud, plus a small team responsible for benefit fraud investigation. Given these limited resources to support embedding the Council's revised Fraud and Corruption Strategy, timescales have not been allocated to completing developments highlighted above. This reflects the fact that:

- It is difficult to plan proactive work given the fact that a key aspect of our approach is reactive in the form of investigating allegations of fraud. Whilst the experience of the Council in the last year or so has seen a fall in the number of fraud referrals / investigations, we have no way of predicting whether this trend will continue through 2012 -13 and beyond.
- There is still a significant degree of uncertainty around the impact of planned changes (e.g. Single Fraud Investigation Service, localising support for council tax) on our existing arrangements for tackling fraud through the Benefit Fraud Team. The key issue to resolve is whether current resources that investigate allegations of housing benefit and council tax benefit fraud will remain available to investigate council tax fraud when this becomes a local scheme in April 2013.

### **3. Results of consultation undertaken**

3.1 None

### **4. Timetable for implementing this decision**

4.1 Subject to approval, the implementation of this revised Strategy will commence immediately.

### **5. Comments from Director of Finance and Legal Services**

5.1 Financial Implications

Fraud has a detrimental financial impact on the Council. The Council's practice in respect of fraud is, wherever possible, to recover all monies.

5.2 Legal implications

All fraud work is conducted in accordance with relevant legislation including PACE (Police and Criminal Evidence Act), RIPA (Regulatory Investigatory Powers Act) and the DPA (Data Protection Act). In terms of corporate fraud activity, investigations are conducted in line with the DPA and are referred to the police when considering criminal proceedings.

### **6. Other implications**

**6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

The scope and content of this report is not directly linked to the achievement of key Council objectives, although it is acknowledged that fraud can have a detrimental financial impact on the Council.

**6.2 How is risk being managed?**

The risk of fraud in the Council is reflected in the Finance and Legal Service's Directorate risk register, which is subject to a quarterly review.

**6.3 What is the impact on the organisation?**

None

#### **6.4 Equalities / EIA**

Section 149 of the Equality Act 2010 imposes a legal duty on the Council to have due regard to three specified matters in the exercise of their functions:

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The "protected characteristics" covered by section 149 are race, gender, disability, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment. The duty to have due regard to the need to eliminate discrimination also covers marriage and civil partnership.

The Council acting in its role as Prosecutor must be fair, independent and objective. Views about the ethnic or national origin, gender, disability, age, religion or belief, political views, sexual orientation, or gender identity of the suspect, victim or any witness must not influence the Council's decisions.

#### **6.5 Implications for (or impact on) the environment**

No impact

#### **6.6 Implications for partner organisations?**

None

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# **Fraud and Corruption Strategy**

**August 2012**



Coventry City Council



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## 1. Introduction

- 1.1 Over the last few years the public sector has been faced with an increase in the level of fraud activity, with an increasing emphasis on such activity becoming more organised. This needs to be put into context in that, with the exception of benefit fraud, levels of identified / reported fraud against the City Council are still at a relatively low level, both in terms of numbers and value when compared with the size of the organisation. Whilst our experience seems at odds with fraud levels quoted nationally, we cannot with any certainty explain whether this is due to either an inability to detect fraud in Coventry or whether our systems provide a robust mechanism in preventing fraud.
- 1.2 Irrespective of the level of fraud, the Council agrees with the focus highlighted in "Fighting Fraud Locally - The Local Government Fraud Strategy" (published by the National Fraud Authority), for the need for local authorities to have an effective strategy to be in place to tackle fraud.

**"The urgent issue now facing this country is the need to reduce the deficit. Tackling fraud is an integral part of putting finances back on a stable footing and ensuring that tax-payers hard earned money is used to protect resources for frontline services. Fraud has a serious effect on all parts of the economy and costs the UK in the region of £73 billion per year. The cost of fraud to local government is estimated at £2.2 billion a year. This is money that could be used for local services".**

**Source – Fighting Fraud Locally: The Local Government Fraud Strategy**

Coventry City Council remains committed to the prevention, detection and investigation of fraud and corruption and has reviewed its existing Fraud and Corruption Strategy to ensure it is reflective of best practice and is flexible enough to respond to the different types of fraud it faces.

## 2. Objectives

The key objectives of the Fraud and Corruption Strategy are to:

- Enhance and maintain an anti-fraud culture.
- Provide clear guidance on roles and responsibilities.
- Actively encourage prevention and detection of fraud and / or corruption.
- Act as a deterrent to those thinking of committing fraudulent and / or corrupt acts.
- Identify a clear pathway for investigation and remedial action.

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### 3. Definitions

Key definitions include:

#### 3.1 **Fraud** - The Fraud Act 2006 defines three main types of fraud:

- 1) Fraud by false representation - where a person dishonestly makes a false representation, and intends, by making the representation either to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss.
- 2) Fraud by failing to disclose information - where a person dishonestly fails to disclose to another person information which he is under a legal duty to disclose, and intends, by failing to disclose the information to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss.
- 3) Fraud by abuse of position - where a person occupies a position in which he is expected to safeguard, or not to act against, the financial interests of another person, dishonestly abuses that position, and intends, by means of the abuse of that position to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss.

#### 3.2 **Corruption** - The Audit Commission defines corruption as the offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person.

Although this document refers to fraud and corruption, the principles can be applied to all financial malpractice. This covers a wide range of irregularities and criminal acts including theft, deception, bribery, forgery, extortion and embezzlement.

### 4. Corporate Framework

#### 4.1 Coventry City Council has a range of interrelated policies, procedures and guidance that provide a corporate framework to underpin counter fraudulent activity. In addition to the Fraud and Corruption Strategy, these include:

- Code of Conduct for Members
- Code of Conduct for Officers
- Financial Procedures
- Recruitment Procedures
- Acceptable Use of ICT Facilities
- Money Laundering Policy
- Guidance on the Bribery Act
- Disciplinary Policy and Procedure
- Whistle blowing Procedure
- Benefit Fraud Prosecution and Sanction Policy

## 5. Roles and Responsibilities

The following table details the roles and responsibilities of individuals / groups in relation to the various elements of the corporate framework for counter fraudulent activity.

<b>Group / Individual</b>	<b>Role / Responsibilities</b>
<b>All Members</b>	To comply with the Code of Conduct for Members. To support and promote an anti-fraud culture within the Council.
<b>Cabinet Member (Strategic Finance and Resources)</b>	To approve the Council's Fraud and Corruption Strategy. To take decisions on behalf of the City Council in relation to matters involving operational finance.
<b>Audit Committee</b>	To monitor Council policies on "whistle blowing" and the anti-fraud and anti-corruption strategy through the consideration of (1) half yearly reports on fraud activity and (2) specific ad-hoc reports on significant frauds.
<b>Ethics Committee</b>	Promoting and maintaining high standards of conduct by Members and monitoring the operation of the Code of Conduct for Members.
<b>Director of Finance and Legal Services</b>	To carry out all responsibilities as the officer responsible for the proper administration of financial affairs in accordance with Section 151, Local Government Act 1972. To conduct investigations into major fraud, irregularity and loss (in practice, this is delegated to the Internal Audit and Risk Manager).
<b>Assistant Director, Legal Services and Monitoring Officer</b>	To advise Members and employees on ethical issues, probity and standards and ensure that the Council operates within the law and statutory codes of practice.
<b>Internal Audit and Risk Manager</b>	To develop and implement the Council's Fraud and Corruption Strategy. To ensure that all allegations of fraud and corruption are assessed in accordance with the Council's Fraud Response Plan. To ensure investigations are carried out by appropriately skilled officers. To develop an audit programme that specifically considers the risk of fraud in key Council systems.
<b>Directors, Assistant Directors, Service Managers</b>	To ensure that they have robust local systems and processes in place to assess the risk of fraud and reduce these risks by implementing effective controls. To create an environment where employees feel able to approach them with any concerns they may have about suspected irregularities. To report promptly any concerns to the Internal Audit and Risk Manager.

<b>Group / Individual</b>	<b>Role / Responsibilities</b>
<b>All Employees</b>	To follow Council policies and procedures and comply with the Code of Conduct for employees. To be alert to the possibility of fraud and to report any concerns to management or the Internal Audit and Risk Manager.
<b>The Public, Supplier and Contractors</b>	To be aware of the possibility of fraud and corruption against the Council and report any concerns / suspicions.

## 6. Fraud Awareness

6.1 To underpin the key messages within the Fraud and Corruption Strategy, the Council has employed different mechanisms to raise awareness of this area. These include:

- Developing guidance for specific groups within the Council, including both a manager's and employee's guide to fraud awareness.
- Articles in either Insight or Core Brief.
- Targeted awareness sessions for key users where we believe fraud may be an issue.

Additionally, work is ongoing to implement an e-learning module on fraud awareness which will be available to all Council employees.

## 7. Fraud Prevention

The Council will take all reasonable steps to prevent fraud and corruption from occurring. This includes the following:

7.1 **Standards / Behaviours** - Defining the expectations the Council has of its employees and Members in respect of:

- Behaviours - These are reflected in documents such as the Code of Conduct (for both Members and employees) and also on guidance on the Bribery Act.
- Standards - These are reflected in procedures covering issues such as finance, recruitment and use of ICT.

7.2 **Effective Systems** - The day to day responsibility for the prevention (as well as detection) of fraud and corruption rests with managers. They are responsible for ensuring that for the local systems / processes they oversee:

- Risks are identified.
- Effective controls are developed and maintained to prevent and detect fraud.
- Controls are being complied with.

Key expected controls include ensuring that there is an adequate separation of duties, which may require more than one employee to be involved in key tasks where a risk may

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be present. Authorisation procedures also need to be robust to ensure transactions are appropriately approved and there should be a process of independent monitoring.

7.3 **Internal Audit** - Whilst acknowledging that responsibility for developing local systems lies with management, Internal Audit are responsible for providing assurance to specific managers as well as the Council as a whole, of the effectiveness of controls operating across Council's systems. This is covered through two types of reviews:

- Standard audit reviews agreed in the annual Internal Audit Plan.
- Specific proactive reviews targeted at fraud risks identified. Fraud risks are identified through two sources, namely:
  - An annual risk assessment to determine Council fraud risks. The assessment considers two factors when evaluating potential risks, namely the financial impact to the Council and whether such fraud has been identified by the Council previously.
  - Risks that are identified from other sources, e.g. other local authorities, or through national publications.

In addition to providing assurance, the outcome of such work will also identify any control improvements to help minimise risk and, in particular, the risk of fraud.

## 8. **Fraud Detection and Investigation**

8.1 All managers are responsible for identifying irregularities in their systems that may be potential theft or fraud. Many of the measures management establish to prevent fraud are also effective in detecting fraud if it occurs – for example, by means of the internal checks within their systems and the monitoring of their systems. In reality, however, detecting fraud is not a simple process and the Council relies on other mechanisms to assist in this aim, namely through data matching and from receiving allegations of fraud. These are expanded upon below.

8.2 **Data Matching** - The Council is involved in data matching through two different mechanisms, namely:

- The National Fraud Initiative (NFI) is a national data matching exercise currently run by the Audit Commission which occurs on a two year cycle. It matches data provided by participants to help detect fraud in areas such as council tax, housing benefits, pensions and recruitment.
- Linked to the success of the NFI, the Council is also looking at opportunities to undertake its own data matching exercise similar to those areas covered by the NFI. Through adopting a timelier approach in comparison to the NFI, it is hoped that in addition to detecting fraud, this will also act as a preventative mechanism.

8.3 **Allegations of fraud** - In practice, the main mechanism for detecting fraud at Coventry is through allegations of fraud being made from both internal and also external sources. Whilst awareness is primarily focused on prevention, the Council does communicate regularly on the mechanisms for raising concerns. In terms of our approach, allegations can be reported through various sources in the Council. The key critical aspect being that the person receiving the allegation forwards them promptly to the Internal Audit and Risk Manager, who will co-ordinate the response to these concerns. The Council does

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recognise that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the alleged malpractice. In response to this, the Council has developed a Whistle blowing Procedure that is intended to encourage and enable individuals to raise serious concerns within the Council rather than overlook a problem. Further the procedure emphasises that concerns raised will be treated in confidence, with every effort made to protect the identity of the whistle blower.

8.4 Whatever the source of the referral, in order to protect individuals and the Council, initial enquiries will be made to determine whether an investigation is appropriate and, if so, what form it should take. The following factors will be considered when establishing the scope and depth of any investigation:

- The seriousness of the issues raised;
- The credibility of the concern; and
- The likelihood of confirming the allegation from recognised sources and information available.

If a decision is made to undertake an investigation, the Internal Audit and Risk Manager will then agree who and how the investigation will be conducted. All investigations are carried out by appropriately trained / experienced officers, and in line with agreed procedures.

## **9. Sanctions / Deterrence**

9.1 Following the investigation, if the conclusion reached is that there is evidence of fraud or corruption, the Council has a number of options available, depending on the nature of the fraud. These include:

- Benefit Fraud - The Council's Benefit Fraud Prosecution and Sanction Policy sets out the Council's approach to investigating allegations of benefit fraud, as well as the different sanction available when fraud has been committed.
- Employee - All cases involving employees are considered through the Council's Disciplinary Procedure. The most serious matters can also be referred to the police.
- External - Options available include referral to the police and / or civil redress.

9.2 In all cases of fraud, the Council will seek to publicise action taken against the individuals committing fraud against the Council. Any resultant publicity may act as a deterrent.

**Further advice and guidance on this strategy can be obtained through contacting:**

**Stephen Mangan - Audit and Risk Manager**  
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