

**CITY OF DURHAM****AUDIT OVERVIEW COMMITTEE****4<sup>TH</sup> OCTOBER 2007****REPORT OF THE DIRECTOR OF STRATEGIC RESOURCES****1. PROGRESS REPORT FOR THE PERIOD 1<sup>ST</sup> APRIL 2007 TO 31<sup>ST</sup> AUGUST 2007****1.1 Introduction**

This report will compare the actual work undertaken by Internal Audit with that planned for the period 1<sup>st</sup> April 2007 to 31<sup>st</sup> August 2007.

**1.2 Progress Report**

1.2.1 In the period 1<sup>st</sup> April 2007 to 31<sup>st</sup> August 2007, the following work was undertaken and compares to the plan as shown below:

<b>Annual Plan Audit Days</b>		<b>Cumulative Planned Audit Days</b>	<b>Cumulative Actual Audit Days</b>	<b>Variance Audit Days</b>
460.00	Non productive time	196.67	166.87	(29.80)
244.00	Management & Administration non chargeable	101.67	171.97	70.30
87.00	Management & Administration chargeable	36.25	16.70	(19.55)
580.00	2006/2007 Audit Plan	277.67	187.20	(90.47)
40.00	Follow Up work	16.67	17.60	0.93
155.00	Contingencies & Special Investigations	64.57	85.77	21.20

A more detailed analysis is given in Appendix 'A', together with an up to date position for all audit assignments allocated.

1.2.2 The original 2007/2008 Audit Plan is comprised of 52 specific audit assignments, one of which (08/28 IT internal penetration testing) has been outsourced, and one of which (08/52 InPrint) is being carried out by Derwentside District Council's Internal audit Team as the "lead" authority on the InPrint partnership. Details of any findings and recommendations in respect of these two assignments will be reported to Audit Overview as soon as they are available.

1.2.3 At the 31<sup>st</sup> August 2007, 6 further assignments have been added in respect of:

- ◆ Collection of water rates on behalf of the Northumbrian Water Authority (NWA)
- ◆ Furniture Packs for tenants
- ◆ Supporting people
- ◆ Tenants contents insurance
- ◆ Building control
- ◆ Supporting people

All of this work has been met from the contingency provision.

1.2.4 From a revised plan of 58 assignments 23 have been completed (40.0%) 5 of which are at draft stage. Of the 14 agreed assignments covering the Councils critical business systems, 3 out of 14 (21.5%) have been completed. Work is nearing completion on a further 3.

1.2.5 In total 25.57 audit days have been spent completing a number of audits relating to the 2006 / 2007 audit plan. This has been met from the contingency provision. This is a significant reduction on the time taken to complete audits carried forward from 2005 / 2006 to 2006 / 2007 which was in excess of 80 days.

1.2.6 Major projects carried out during the year which were not included in the original audit plan are detailed below. All of this work has been met from the contingency provision.

- ◆ BVPI 12 Sickness – investigation of methodology, data cleansing and recalculation (19.40 days)
- ◆ Furniture packs (13.23 days)
- ◆ Building control (4.57 days)
- ◆ NWA (3.47 days)
- ◆ Cash receipting procedures (3.10 days)
- ◆ New Code of Corporate Governance (2.47 days)
- ◆ Tenants contents insurance (2.20 days)

1.2.7 Progress on the plan this year has been influenced by a number of factors.

- a) The urgent work required on sickness, NWA, Furniture packs, Building control and Tenants contents insurance.
- b) Requests by Heads of Service to delay the starting times of some audit assignments.
- c) Training requirements of the new auditor.
- d) The continued recovery from sickness of the audit assistant.

The built in flexibility of the audit plan this year which allows the team to react quickly to Service managers' urgent requirements has largely been successful. The result is that whilst there has been an adverse effect on the plan, we have been able to absorb the majority of the additional work and the team is working hard to get back on track. It is envisaged that the plan will be up to date by the end of September.

There has been some minor problems in bringing forward assignments scheduled for Q3 and Q4 to cover those that we have agreed with service managers to delay. It is suggested that perhaps the audit plan should be laid out on a monthly basis rather than quarterly in the future to allow Heads of Service to plan work more effectively. I will be discussing this with all Heads of Service in the consultation part of the audit planning process for 2007/08.

As discussed at the last meeting we are gradually increasing the workload of the audit assistant as his recovery from sickness progresses. However, it is inevitable that time charged to General Administration this year will be significantly over budget as a result of this.

1.2.8 The reviewed arrangements in respect of the control risk self assessment form has been welcomed by managers and is working effectively.

1.2.9 Additional or changing risks identified at the pre audit meeting and as part of the audit process itself will be communicated to managers to enable them to update their risk registers. This is an interim arrangement until internal audit are able to access all risks held on the risk register. Internal audit will then automatically update the risk register on their behalf and notify them of this on the recommendation action plan.

1.2.10 The following local performance indicators for the period 1<sup>st</sup> April 2007 to the 31<sup>st</sup> August 2007 are shown below:-

i) Number of audits undertaken and completed	23 (5 at draft stage)
ii) Number of recommendations made	128
iii) Number of recommendations agreed	124 (97%)
iv) Number of recommendations not agreed	3
v) Number of recommendations partly agreed	1
vi) Number of draft reports issued within 10 working days of closure meeting	50%
vii) Final report and recommendation action plan issued within 5 working days of the post audit meeting	77%
viii) Number of recommendation action plans signed off and returned within 5 working days of issue	50%
ix) Number of recommendations implemented since 1/04/07 (Some relate to audits carried out in previous years)	198
x) Number of Post audit questionnaires completed and returned	100%
xi) Post audit meeting held within 10 working days of the issue of the draft report	64%

- xii) There are 53 recommendations that have been agreed and followed up which are yet to be fully implemented. All have a new implementation date which has been agreed with the relevant Head of Service. 40 of these are due to be followed up for a second time in Quarter 3 (Commences 1/10/07). In accordance with members instructions a detailed breakdown is attached at Appendix B, showing the length of time that each recommendation has remained outstanding, the revised implementation date and the reason for non implementation.

5 should have been followed up and haven't. On investigation these were not picked up by the automated reporting process at the correct time. They will be added to the follow up report in Quarter 3.

4 will be followed up in Quarter 4, and a further 4 in Quarter 1 in 2008/09.

Please be aware that some of the recommendations with revised implementation dates may have already been implemented since the last follow up report. This will not be confirmed until the next follow up report scheduled for quarter 3.

1.2.11 Recommendations partly agreed are attached at Appendix C

1.2.12 Recommendations not agreed are attached at Appendix D

## **2. AUDITS COMPLETED IN 2007/08 (excluding items already reported)**

### **2.1 Audits assessed as EXCELLENT and awarded an audit opinion score of 1**

Internal audit reviewed the following systems where given the nature of the risks involved in the achievement of the control objectives, key controls and other parts of the internal control system are working effectively and provides full assurance that risks material to the achievement of the control objectives are adequately managed.

#### **Accountancy Financial Management System**

No recommendations were made for Accountancy Financial Management System, all systems were deemed to be working effectively.

#### **Cash reconciliations**

No recommendations were made for cash reconciliations, all systems were deemed to be working effectively.

### **2.2 Audits assessed as GOOD and awarded an opinion score of 2**

Internal audit reviewed the following systems where given the nature of the risks involved in the achievement of the control objectives key controls and other parts of the internal control system are considered to be working effectively and provides substantial assurance that risks material to the achievement of the control objectives are adequately managed.

#### **NNDR**

Main recommendations included the review of procedure notes, and evidence requirements for the statement on internal control.

All recommendations were accepted.

### **2.3 Audits assessed as SATISFACTORY and awarded an audit opinion score of 3**

Internal Audit reviewed the following systems where given the nature of the risks involved in the achievement of the control objectives key controls are adequate but other parts of the internal control system requires corrective action. This provides reasonable assurance that risks material to the achievement of the control objectives are adequately managed.

#### **Accountancy final accounts**

Recommendations in respect of reviewing access to computer systems particularly for those who have left the authority; adhering to best practice when completing working papers and evidence requirements for the statement on internal control were made.

All recommendations were accepted.

### **2.4 Audits assessed as NEEDS IMPROVEMENT and awarded an opinion score of 4**

There were no systems under audit which were assessed as needs improvement.

### **2.5 Audits assessed as UNSATISFACTORY and awarded an audit opinion score of 5**

#### **Swimming Baths**

A number of recommendations were made including improvements in division of duties, the introduction of regular reconciliations, centralization of procedure notes, and evidence requirements for the statement on internal control.

One recommendation was not agreed.

### **2.6 Eight further reviews were carried out which did not require an audit opinion**

#### **NWA**

Recommendations included improved reconciliation processes, review of procedure notes; improved communication between services and consistency in the calculation of any recharge.

All recommendations were agreed.

#### **Performance Indicators**

Recommendations made included the amendment of several PI'S after re-calculation; the automation of some indicators through the use of electronic media and the inclusion of all relevant data when calculating PI's.

All recommendations were agreed.

#### **Capital Finance**

Discussions with the Audit Commission revealed that testing to be carried out as part of this audit was un-necessary as the Audit Commission's work on final accounts would sufficiently cover this area.

To avoid duplication of effort it was decided not to carry out any testing. Discussions with the Head of Financial Services revealed that given the statutory External Audit requirements it was doubtful whether any future Internal review would be required.

The Audit Commission testing revealed no significant issues.

### **Housing Benefits – Performance Standards**

Overall the Performance Standards for Claims Administration and Security enablers were found to have been accurately and fairly assessed. Each enabler had been referenced to relevant supporting evidence, although the use of hyperlinks may be beneficial. Where an enabler had not been met action was being considered to address the reasons.

No recommendations were made.

### **Benefits Accuracy Q2**

Internal Audit undertakes a quarterly review of the accuracy of benefit claims.

These aim to meet three objectives:

- ◆ Completion of the Department for Work and Pensions Stats 128 Return.
- ◆ Enable client management to monitor performance against BVPI 79a.
- ◆ Enable client management to monitor performance against the standards of evidence requirements of the Verification Framework.

The quarterly audit identified that 124 of the 125 (99.2%) determinations were compliant with the Verification Framework Requirements.

### **Furniture Pack**

Recommendations were in respect of a review of procedures; reconciliation processes; creation of a database; suggested amendments to the contract; evidence requirements; agreement of overcharge and accuracy of charges applied.

One recommendation was not agreed.

### **Tenants Contents Insurance**

Only one recommendation was made which was accepted was in relation to reconciliations.

### **Building Control**

Recommendations included adequate consultation at budget setting; the introduction of timesheets to determine chargeable and non chargeable activity; review of validation procedures; the need for adequate checking and reconciliation processes; recording of inspections on the CAPS system, required adjustments for vat, contract variations and monitoring of inspections carried out.

One recommendation was not agreed.

### **3. POST AUDIT QUESTIONNAIRES 2006/07**

All post audit questionnaires for 2006/07 have now been received and a summary of the results is attached at Appendix E.

There has been a sustained improvement in the section over the last twelve months with an average increase in score of 14.5 %. The highest improvement is at the post audit meeting stage with an increase of 21.1%. The lowest improvement was in relation to the pre audit meeting with only 10.6%

The lowest score 4.21 was in respect of timeliness, with the highest being 4.67 for helpfulness. Overall an average score of 4.42 was recorded.

### **4. FRAUD AND CORRUPTION POLICY STATEMENT AND SUPPORTING DOCUMENTS**

The Fraud and Corruption Policy and supporting documents, as set out in Appendix F(i)-F(iv) have been amended to take into account the introduction of the Fraud Act 2006.

### **5. RECOMMENDATIONS**

- ◆ That the Audit Overview Committee note the contents of the Progress Report for the 1<sup>st</sup> April 2007 to the 31<sup>st</sup> August 2007
- ◆ That the Audit Overview Committee approve the Fraud and Corruption Policy and supporting documents as set out in Appendix F(i)-F(iv).





## AUDIT PLAN 2007/2008 DETAILED ANNUAL

PERIOD 1/04/2007 TO 31/08/2007

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/01	Performance Indicators	15.00	15.00	18.70	3.70	Y
08/02	Accountancy - Financial management system	10.00	10.00	10.37	0.37	Y
08/03	Capital Finance (incl leasing and prudential code)	10.00	10.00	3.93	-6.07	Y
08/04	Cash reconciliations (incl arrears, refunds and write offs)	5.00	5.00	7.57	2.57	Y
08/05	Burial service	10.00	10.00	10.63	0.63	Y
08/06	IT - Application controls	10.00	10.00	2.50	-7.50	Testing
08/07	NNDR liability incl valuation, collection, voids, refunds, discounts and write offs	10.00	10.00	11.73	1.73	Y
08/08	Swimming Baths	15.00	15.00	16.57	1.57	Y
08/09	Housing benefits - quarterly check Q1	7.00	7.00	6.13	-0.87	Y
08/10	Grants register incl guidance, procedures and min standards for WP	15.00	15.00	1.10	-13.90	Delay till Sept
08/46	VFM - rent collectors (Quarter 1)	7.00	7.00	9.53	2.53	Draft
08/49	Statement of Internal Control (Quarter 1)	5.00	0.00	0.00	0.00	Y
08/50	Durham Sport (Quarter 1)	10.00	10.00	1.60	-8.40	Y
08/51	Service charges (Quarter 1)	10.00	10.00	0.97	-9.03	Pre audit
<b>Total Quarter 1</b>		<b>139.00</b>	<b>134.00</b>	<b>101.33</b>	<b>-32.67</b>	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/11	Council Tax liability incl valuation, collection, voids, discounts, exemptions, refunds and w/offs	15.00	10.00	13.93	3.93	Testing
08/12	Accountancy Final accounts	7.00	4.67	8.03	3.36	Y
08/13	Asset register	10.00	6.67	6.53	-0.14	Draft
08/14	Housing benefits - Performance standards	10.00	6.67	7.73	1.06	Y
08/15	Creditors	10.00	6.67	2.23	-4.44	Testing
08/16	Payroll incl overtime, maternity/paternity, mileage and disturbance	15.00	10.00	2.10	-7.90	Testing
08/17	Cash collection incl receipting, electronic payments, kiosks, suspense	10.00	6.67	1.07	-5.60	Delay till Sept
08/18	Gas maintenance	10.00	6.67	0.00	-6.67	Delay till Dec
08/19	Risk Management	7.00	4.67	6.43	1.76	Draft
08/20	Responsive repairs	10.00	6.67	0.00	-6.67	Move to Q3
08/21	Housing benefits - quarterly check Q2	7.00	4.67	7.07	2.40	Y
08/22	IT - data protection	15.00	10.00	2.17	-7.83	Delay till Oct
08/45	VFM - Kiosks (Quarter 2)	7.00	4.67	6.73	2.06	Draft
<b>Total Quarter 2</b>		<b>133.00</b>	<b>88.70</b>	<b>64.02</b>	<b>-24.68</b>	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/23	Sickness	10.00	0.00	0.00	0.00	NYA
08/24	Stage School	10.00	0.00	0.00	0.00	NYA
08/25	System reconciliation	10.00	6.67	5.00	-1.67	Post audit
08/26	Housing benefits - quarterly check Q3	7.00	0.00	0.00	0.00	NYA
08/27	Planned Maintenance	10.00	0.00	0.00	0.00	NYA
08/28	IT internal penetration testing (outsourced)	10.00	0.00	0.00	0.00	NYA
08/29	Sports Centres	30.00	20.00	12.87	-7.13	Draft
08/30	IT - internet controls	10.00	0.00	0.00	0.00	NYA
08/31	Treasury management	5.00	0.00	0.00	0.00	NYA
08/32	Customer services	20.00	0.00	0.00	0.00	NYA
08/33	Data retention and disposal	10.00	6.67	3.97	-2.70	Testing
<b>Total Quarter 3</b>		<b>132.00</b>	<b>33.34</b>	<b>21.84</b>	<b>-11.50</b>	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/34	Transfer station	10.00	0.00	0.00	0.00	NYA
08/35	Accountancy estimates	10.00	0.00	0.00	0.00	NYA
08/36	Housing rents liability incl rent calculation, collection, voids refunds and write offs	10.00	0.00	0.00	0.00	NYA
08/37	Housing benefits - quarterly check Q4	7.00	0.00	0.00	0.00	NYA
08/38	Housing benefits - Council tax, rent allowances etc.	20.00	0.00	0.00	0.00	NYA
08/39	Crematorium	7.00	0.00	0.00	0.00	NYA
08/40	IT - business continuity/disaster recovery	10.00	0.00	0.00	0.00	NYA
08/41	Housing benefits fraud investigations	10.00	0.00	0.00	0.00	NYA
08/42	Debtors incl a/c raising, recovery, write off and system	10.00	0.00	0.00	0.00	NYA
08/43	IT - change controls	10.00	0.00	0.00	0.00	NYA
08/44	Gala - catering and bars	10.00	0.00	0.00	0.00	NYA
08/47	Governance arrangements (Quarter 4)	5.00	0.00	0.00	0.00	NYA
08/48	Fraud and Corruption (Quarter 4)	5.00	0.00	0.00	0.00	NYA
<b>Total Quarter 4</b>		<b>124.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	

## Brought forward

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
07/39 bf	Sickness	0.00	0.00	6.00	6.00	Y
07/22 bf	Treasury Management	0.00	0.00	0.60	0.60	Y
07/38 bf	Housing Maintenance	0.00	0.00	3.30	3.30	Y
07/48 bf	Debtors	0.00	0.00	7.37	7.37	Y
07/33 bf	Cash Collection	0.00	0.00	2.60	2.60	Y
07/60 bf	Crematorium	0.00	0.00	0.53	0.53	Y
07/37 bf	Housing Benefits Fraud investigations	0.00	0.00	0.17	0.17	Y
07/50 bf	Housing Benefits	0.00	0.00	2.80	2.80	Y
07/32 bf	Accountancy Estimates	0.00	0.00	1.47	1.47	Y
07/05 bf	Customer Services	0.00	0.00	0.73	0.73	Y


<b>Total brought forward</b>	<b>0.00</b>	<b>0.00</b>	<b>25.57</b>	<b>25.57</b>
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**Reserve List**

	Target Days	YTD Plan	YTD Actual	YTD Variance
	52.00	21.67	0.00	-21.67
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
TOTAL	52.00	21.67	0.00	-21.67

	Target Days	YTD Plan	YTD Actual	YTD Variance	
n/a	Follow ups	40.00	16.67	17.60	0.93

**Non Productive Time**

	Target Days	YTD Plan	YTD Actual	YTD Variance
Bank Holidays	60.00	30.00	30.00	0.00
Annual leave	197.00	82.08	94.50	12.42
Sickness	54.00	22.50	7.00	-15.50
Special leave	6.00	2.50	5.27	2.77
Day release	68.00	28.33	5.27	-23.06
Other training	60.00	25.00	19.07	-5.93
Study leave / exams	12.00	5.00	5.50	0.50
Hospital/Dental appointments	3.00	1.25	0.27	-0.98
TOTAL	460.00	196.66	166.88	-29.78

**Management and Administration (non chargeable)**

	Target Days	YTD Plan	YTD Actual	YTD Variance
Audit planning, management and supervision of the section.	50.00	20.83	34.67	13.84
Review of policy documentation	10.00	4.17	9.93	5.76
Audit manual review in line with new CIPFA model	15.00	6.25	8.20	1.95
Advice and discussion with District Audit	6.00	2.50	0.73	-1.77
Audit sub group etc	4.00	1.67	1.07	-0.60
Maintenance of data base	5.00	2.08	0.80	-1.28
Idea Sub Group	4.00	1.67	0.00	-1.67
OMT	4.00	1.67	0.00	-1.67
Review of Internal Audit	2.00	0.83	0.63	-0.20
Key lines of enquiry	10.00	4.17	1.60	-2.57
New legislation	2.00	0.83	0.87	0.04
Business Planning	5.00	2.08	0.00	-2.08
Document imaging/Back Scanning	10.00	4.17	2.90	-1.27
Options appraisal	20.00	8.33	0.07	-8.26
Risk management	10.00	4.17	4.33	0.16
Internal Audit review meetings	10.00	4.17	7.13	2.96
General Administration	60.00	25.00	93.20	68.20
PDR's	3.50	1.46	3.83	2.37
Business Continuity	5.00	2.08	0.33	-1.75
Emergency planning	5.00	2.08	0.53	-1.55
Section Heads meeting	3.50	1.46	1.13	-0.33
TOTAL	244.00	101.67	171.95	70.28

**Management and Administration (chargeable)**

	Target Days	YTD Plan	YTD Actual	YTD Variance
Tender openings	3.00	1.25	0.47	-0.78
Financial appraisals	5.00	2.08	0.40	-1.68
Project implementation - Purchasing, Housing and Rents	10.00	4.17	0.27	-3.90
Treasury management cover	4.00	1.67	0.43	-1.24
Stores - stocktaking	10.00	4.17	0.00	-4.17
Advice to Departments	20.00	8.33	6.70	-1.63
Audit awareness training	2.00	0.83	0.13	-0.70
Review of regulations and procedures	3.00	1.25	0.00	-1.25
Implementatuion of recommendations involving additional work by Internal Audit	10.00	4.17	1.13	-3.04
Statement of internal control	10.00	4.17	4.57	0.40
Misc working groups	10.00	4.17	2.60	-1.57
TOTAL	87.00	36.26	16.70	-19.56

**Ad Hoc work (Contingency)**

		<b>Target Days</b>	<b>YTD Plan</b>	<b>YTD Actual</b>	<b>YTD Variance</b>	<b>Complete</b>
08 - cont	RTB support work	0.00	0.00	1.27	1.27	
08 - cont	Building Control investigation	0.00	0.00	4.57	4.57	Y
08 - cont	BVPI 12 - Sickness - investigation of methodology and recalculation	0.00	0.00	19.40	19.40	Y
08 - cont	Flexitime	0.00	0.00	0.10	0.10	
08 - cont	Local Area agreement	0.00	0.00	0.53	0.53	
08 - cont	New system SX3, Housing, Rents, Maintenance	0.00	0.00	0.47	0.47	
08 - cont	Cash receipting procedures	0.00	0.00	3.10	3.10	
08 - cont	NWA water rate charges	0.00	0.00	3.47	3.47	Y
08 - cont	Cash collection errors	0.00	0.00	0.27	0.27	
08 - cont	Baths appeal	0.00	0.00	1.33	1.33	
08 - cont	Out of dat cheque	0.00	0.00	0.10	0.10	
08 - cont	Restructure	0.00	0.00	0.47	0.47	
08 - cont	Furniture pack	0.00	0.00	13.23	13.23	Y
08 - cont	Tenants contents insurance	0.00	0.00	2.20	2.20	Y
08 - cont	Local Government review	0.00	0.00	0.77	0.77	
08 - cont	Scam invoice	0.00	0.00	0.40	0.40	
08 - cont	Procurement - one off payments	0.00	0.00	0.47	0.47	
08 - cont	Mayors appeal	0.00	0.00	0.47	0.47	
08 - cont	ICT updating laptops	0.00	0.00	0.67	0.67	
08 - cont	Travellers site - electricity meter	0.00	0.00	0.20	0.20	
08 - cont	Supporting people	0.00	0.00	0.93	0.93	Testing
08 - cont	Request and installation of new certificate - Experian	0.00	0.00	0.33	0.33	
08 - cont	New Code of Corporate Governance	0.00	0.00	2.47	2.47	
08 - cont	Witness statement	0.00	0.00	0.33	0.33	
08 - cont	Staff Turnover contingency	25.00	10.42	0.00	-10.42	
08 - cont	Special investigations contingency	130.00	54.17	2.67	-51.50	
	<b>Total</b>	<b>155.00</b>	<b>64.59</b>	<b>60.22</b>	<b>-4.37</b>	

<b>Totals</b>		<b>1566.00</b>	<b>693.56</b>	<b>646.11</b>	<b>-47.45</b>	
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Note \* Main systems for assurance purposes agreed with Audit Commission



Audit Ref	Audit Name	Department	Rec No	Planned Implementation date	Revised Implementation Date	Recommendation	Explanation	Notes	Months since ID	Years since ID
06/19	Homelessness	Housing Services	R3	01-Jan-06	31-Oct-06	Prior to cancelling a Housing Benefit claim relating to homeless applicants staying in Council temporary accommodation, the Homelessness Officer should be contacted to ensure that action may be taken to obtain the relevant information.	Waiting for staff to be in post		10	0.84
06/24	Housing Rents	Financial Services	R3	01-Jun-06	31-Dec-06	Procedure Notes with regards the role of the Revenues Supervisor should be produced this should also apply to other key roles within the Rent Department.	Time restrictions		7	0.59
07/12	Gala Theatre Health Check	Cultural Services	R7	01-Nov-06	31-May-07	Following the takings count the cash-up sheet be signed by the officers present to confirm that the total is correct and proper procedure has been followed	To be introduced		7	0.59
07/12	Gala Theatre Health Check	Cultural Services	R2	30-Nov-06	31-May-07	The appropriate officers be added to the Certifying Officers List, with authorisations to include the ordering of goods	Review of certified officers to be carried out		6	0.51
07/12	Gala Theatre Health Check	Cultural Services	R4	30-Nov-06	31-May-07	An overall reconciliation process should be introduced for refunds to balance the total refunds and credit transactions as per the Databox system to records. This should be carried out on a regular basis, and include cancelled shows, individual refunds, and cinema ticket reunds	Introduced from time of follow-up		6	0.51
05/34	Council House contents insurance	Legal and Administration	R3	01-Mar-05	30-Jun-07	A suitable method for reconciling the rent account with the RSA database be established. Due to the low take up of the scheme it is suggested that the reconciliation be carried out at least quarterly.	Staffing restrictions - new staff in post.	Part of HMS	28	2.36
05/23	Health and Safety	Executive	R3	01-Aug-05	30-Jun-07	Risk assessments are compiled for all areas within the authority, and are periodically reviewed.	ongoing		23	1.94
06/35	Adaptations and Special Needs	Housing Services	R1	01-Mar-06	30-Jun-07	An efficient system be devised which allows the Administration Assistant access to the information regarding Adaptations on one computer system. By improving the system involved this will improve the efficiency process, which would allow the Administration Assisstant time to update the performance monitoring information	Part of new Housing Management System		16	1.35
06/19	Homelessness	Housing Services	R13	01-Apr-06	30-Jun-07	Investigations should be carried out to determine the feasibility of all documents relating to each homelessness application (including the application itself) being stored on the document imaging system 'Anite'.	Waiting for new Housing Management System		15	1.26
06/24	Housing Rents	Financial Services	R1	01-Apr-06	30-Jun-07	Review of the systems access permissions should be completed as a matter of urgency.			15	1.26
06/24	Housing Rents	Financial Services	R2	01-Jun-06	30-Jun-07	A user group should be established to determine access permissions to all other aspects of the Housing Management System.	Review to be carried out as part of new system.		13	1.09
06/20	Cash collection	Community Services	R14	01-Apr-06	30-Jul-07	Bankings should be made more regularly to ensure that cash kept overnight does not exceed prescribed limits and/or new safes should be purchased to accomodated the level of cash retained	Clarification to be sought from Insurers	subject to delivery of safes	16	1.35

05/27	Grounds maintenance	Environment and Leisure Services	R13	01-Mar-06	31-Jul-07	A control record should be created for each site showing the allotment site, plot number occupied, date of tenancy agreement and the date on which a Sundry Debtors Account was raised	Audit of Public Open Space currently being carried out		17	1.44
06/55	Travelling Expenses	Legal and Administration	R5	31-Jan-06	01-Aug-07	Consideration be given to the submission of low mileage claims on a quarterly basis to facilitate efficiency savings	Due to go online		18	1.52
06/55	Travelling Expenses	Legal and Administration	R23	31-Jan-06	01-Aug-07	Relevant insurance driving licence and MOT documentation is to be periodically reviewed – suggest annually. Heads of Service be notified that the requirement to supply insurance details before a mileage allowance will be paid to be included in the induction pack	To be included in Policy		18	1.52
06/55	Travelling Expenses	Legal and Administration	R15	28-Feb-06	01-Aug-07	A travel pack should be introduced containing emergency contacts, booking information, confirmation etc for Officers who require overnight stays.	To be included with tickets etc		17	1.44
06/55	Travelling Expenses	Legal and Administration	R12	01-Mar-06	01-Aug-07	Devise costing guidelines for Courses, Seminars, Conferences etc to be updated and reviewed and also to include a costing guideline for rail and air travelling.	To be included in policy		17	1.44
06/55	Travelling Expenses	Legal and Administration	R1	30-Nov-06	01-Aug-07	Consideration is given to the development of a written policy for Travelling, Subsistence and Accommodation for Officers.	At draft		8	0.68
06/55	Travelling Expenses	Legal and Administration	R3	31-Dec-06	01-Aug-07	Ensure that authorisation is given and by the correct Officer within the time frames specified in the Travel and Subsistence Policy. Evidence of authorisation should be retained.	At draft		7	0.59
06/55	Travelling Expenses	Legal and Administration	R16	31-Dec-06	01-Aug-07	Employees are to be reminded of the time frame in which requests are to be forwarded in regards to Courses, Seminars and Conferences.	Policy		7	0.59
06/55	Travelling Expenses	Legal and Administration	R14	31-Dec-06	01-Aug-07	Written procedure notes are needed for Disturbance Allowance and need to be made available for all employees.	At draft		7	0.59
06/55	Travelling Expenses	Legal and Administration	R10	31-Dec-06	01-Aug-07	Internal guidelines on the rules and regulations surrounding Car mileage claims are made available to all members of staff.	At draft		7	0.59
06/55	Travelling Expenses	Legal and Administration	R8	31-Dec-06	01-Aug-07	Provide Travel and Subsistence procedure notes that are easily accessible to all Council employees (E.g. Public Folders). Inform Council employees where the information is located.	At draft		7	0.59
06/55	Travelling Expenses	Legal and Administration	R4	31-Dec-06	01-Aug-07	All mileage forms should be submitted on a monthly basis. Where any claim is not submitted on a monthly basis for high mileage users, officers will not be reimbursed for any mileage claimed for previous months unless there are mitigating circumstances.	Awaiting policy		7	0.59
06/55	Travelling Expenses	Legal and Administration	R2	31-Dec-06	01-Aug-07	Ensure that copies of the Travelling and Subsistence policy are widely available to all staff.	At draft		7	0.59

06/55	Travelling Expenses	Legal and Administration	R7	31-Dec-06	01-Aug-07	Ensure written guidelines are available for employees who are able to claim the reimbursement of mileage also a copy be held within Payment Services for the Officers responsible for processing the claim.	At draft		7	0.59
05/35	Housing lettings	Housing Services	R2	01-Sep-04	01-Sep-07	That performance of the Anite system be monitored. The responsible officers to liaise with Anite to solve any problems.	New Housing Management system - install 2007		37	3.04
05/35	Housing lettings	Housing Services	R3	01-Sep-04	01-Sep-07	That the recording of keys by the Claypath and former Meadowfield offices be standardised. Receipt of keys should be recorded by date and initials.	New HMS		37	3.04
05/33	Furniture pack scheme	Housing Services	R15	01-Nov-04	01-Sep-07	That a suitable system be devised to ensure that all inspections required under the terms of the contract are carried out and appropriately recorded	New Housing Management system		34	2.87
05/33	Furniture pack scheme	Housing Services	R2	01-Dec-04	01-Sep-07	That the control registers be merged into one electronic register (Database).	Problems with staff changes		33	2.79
05/33	Furniture pack scheme	Housing Services	R3	01-Dec-04	01-Sep-07	That investigations be carried out to determine whether it is possible to automatically generate the relevant documentation from the control register.	Dependent on R2		33	2.79
06/12	IT - environmental controls	Human Resources	R25	01-Jul-06	01-Sep-07	The Audit Commission publication "ICT fraud and abuse 2004" should be reviewed and incorporated into the relevant IT department plans.	In process of updating the security policy		14	1.19
06/32	Meadowfield Leisure Centre	Environment and Leisure Services	R13	01-Dec-06	01-Sep-07	Consideration be given to producing a single procedures manual covering all leisure centres	Manager of the centre left - new manager will take over task in June		9	0.76
06/74	Recruitment	Human Resources	R7	31-Dec-06	01-Sep-07	A Corporate Guide be developed for the use of Agency Workers, which Managers can make reference to when appointing Agency staff and so that they are aware of what checks need to be carried out.	Under development		8	0.68
07/13	Tourism Strategy	Cultural Services	R2	31-Mar-07	01-Sep-07	The consultation processes be taken into account when the Tourism Strategy is produced	Restructure		5	0.43
07/13	Tourism Strategy	Cultural Services	R1	31-Mar-07	01-Sep-07	A Tourism Strategy be developed which is clear and concise, takes into account the Area Tourism Partnership, is based on best practise guidance, is linked to corporate priorities, identifies the organisations goals and how they are to be achieved.	Restructure		5	0.43
07/13	Tourism Strategy	Cultural Services	R3	31-Mar-07	01-Sep-07	A timetable be devised which ensures that the Tourism Strategy is reviewed and updated on a regular basis	Restructure		5	0.43
04/04	Asset register	Property Services	R1	31-Jul-04	30-Sep-07	Develop formal procedures for the sharing of asset management information	difficulty with transfer of information	Currently implementing a new system - revised implementation date changed to Sept 07	39	3.21
04/04	Asset register	Property Services	R5	30-Apr-05	30-Sep-07	Review the ICT options for asset management and develop a plan for the maintenance of the asset register, in accordance with the Asset Management Plan 2003	difficulty with transfer of information	See R1	29	2.45
06/36	Contaminated Land	Property Services	R1	01-Feb-06	30-Sep-07	The issue regarding the database and CAPS system transfer of information be resolved so that the Planning Department can use the information to identify Contaminated Land	Waiting for CAPS system to be fully developed	As R2	20	1.68

06/36	Contaminated Land	Property Services	R3	01-Jun-06	30-Sep-07	The Council's Contaminated Land Strategy by revised to include the latest developments with regards to CLR11 and PPS23	Senior Engineer on LTS	As R2	16	1.35
06/36	Contaminated Land	Property Services	R2	01-Jun-06	30-Sep-07	Written Procedure notes be produced and regularly updated to cover the main elements of the system	Senior Engineer on LTS	Consultants currently in reviewing the system. Revised implementation date changed to sept 07	16	1.35
06/71	Debtors	Financial Services	R18	01-Oct-06	30-Sep-07	Access to the Debtors system should be fully reviewed, both in terms of users able to access the system and the permissions attributed to each user profile.	Oversight FMS reviewed		12	1.01
06/71	Debtors	Financial Services	R21	31-Dec-06	30-Sep-07	Departmental targets for the completion of account authorisations and the inputting of invoices should be set and incorporated into the business planning process for each department.	Not done		9	0.76
06/71	Debtors	Financial Services	R16	31-Dec-06	30-Sep-07	When the relevant department agrees for an account to be referred to the Legal Section supporting papers must be forwarded in a timely manner.	Revised working practices not devised		9	0.76
07/24	Housing Lettings	Housing Services	R14	01-Oct-06	01-Oct-07	Where refusals are not made on the standard refusal form, due to non response or via telephone, sufficient notes should be maintained on the Housing Management System to indicate how and why the offer has been refused.	New policy		12	1.01
07/24	Housing Lettings	Housing Services	R10	01-Nov-06	01-Oct-07	A checklist should be utilised to ensure that all applicant checks are carried out and recorded	To be included in new policy		11	0.93
07/24	Housing Lettings	Housing Services	R12	01-Nov-06	01-Oct-07	Evidence should be maintained to confirm that relevant checks have been carried out prior to an offer being made in all cases. Where checks are not required, evidence of the reason for this should be maintained.	New policy		11	0.93
06/33	Supporting People	Housing Services	R1	01-Jun-07	31-Dec-07	City Care to liaise with the Revenues Control Team, and the Rents Section, in order that a solution be found to enable the reconciliation of income to the rent control account.	New system being installed which will reconcile information		7	0.59
06/12	IT - environmental controls	Human Resources	R18	01-Apr-06	31-Mar-08	Financial Procedure Notes should be amended to allocate the maintenance of an IT inventory to the IT Section.	Waiting for C Greenlay to return from maternity leave	New security policy under development	24	2.03
06/48	Fleet Management	Environment and Leisure Services	R27	31-Aug-06	01-Apr-08	A Terms of Reference document should be written for the Transport User Group.	As R1		19	1.61
06/48	Fleet Management	Environment and Leisure Services	R3	31-Aug-06	01-Apr-08	Train new and existing users to use Tranman to support the new process.	As R1		19	1.61
06/48	Fleet Management	Environment and Leisure Services	R1	31-Jan-07	01-Apr-08	Consideration is given to redesigning the complete process to take advantage of the unused system functionality.	New system to be implemented April 2005		14	1.18



## Details of Recommendations Not Agreed

Audit	Recommendation	Reason for Non Agreement	Audit Comment
08/08 Swimming Baths	Investigations should be made to determine the feasibility of securing the coin box within the vending machine	Operational - use coinbox for change. Compensatory controls are in place	Action accepted by Internal audit
08/cont 2 Furniture packs	Further consideration should be given to the creation of a database to assist in the management of the furniture pack scheme.	Rejected by ICT steering Group. No further ICT developments due to LGR	To revisit depending upon outcome of LGR
08/cont 3 Building Control	Building Control income currently on the Planning income code, and planning income currently on the building control income code should be transferred ASAP	Information not forwarded at time of audit, Accounts closed when information supplied. However as the amount was not material no adjustment has been made	Action accepted by Internal Audit

Where the Auditor disagrees with the reasons for non agreement by the relevant Service the recommendation will be subject to escalation in accordance with the protocols agreed in the Audit Procedures manual.

Items discussed at previous meetings are shown highlighted.



## Details of Recommendations Party Agreed

Audit	Recommendation	Reason for Non Agreement	Audit Comment
08/cont 1 NWA	Investigations should be carried out to establish if the recharged amount can be rounded up to the nearest penny when calculated to ensure that the whole amount paid is recovered.	Head of Finance to investigate, however implementation may not be feasible	Action accepted by Internal Audit

Where the Auditor disagrees with the reasons for partial agreement by the relevant department the recommendation will be subject to escalation in accordance with the protocols agreed in the Audit Procedures manual.

Items discussed at previous meetings are shown highlighted.



APPENDIX E

Audit Number	Assignment	Risk	pre audit meeting	post-audit meeting	Clarity	Evidence	Accuracy	Completeness	Contribution to system	Timeliness of audit	Objectives of audit	Understanding	Appreciating risks	Approach Attitude	Helpfulness	Timeliness	Presentation	Overall	Copy final report	Agree reas	Comments
07/01	Financial management system	Y	4	4	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/04	MNDR - liability incl voids & refunds, valuation, collection	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/05	One stop shops/customer services	Y	3	5	4	4	4	4	4	4	Y	4	5	5	5	5	5	5	Y	Y	
07/07	Performance planning and review	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/11	Leasing	Y	4	4	5	5	5	5	5	5	Y	4	4	5	5	5	5	5	Y	Y	
07/13	Tourism strategy	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/15	IT Strategy	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/16	Council tax - liability incl voids, discounts, exemptions etc	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/17	Council Tax refunds	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/20	Housing rents - liability incl voids & refunds	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/21	Payroll	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/42	Sports Centres	Y	5	5	4	4	4	4	4	4	Y	4	5	5	5	5	5	5	Y	Y	
07/23	Flexitime	Y	4	5	4	4	4	4	4	4	N	4	4	4	4	4	4	4	Y	Y	
07/24	Housing Lettings	Y	5	5	4	3	4	4	3	4	N	5	4	4	4	4	4	4	Y	Y	
07/25	RIPA	Y	5	4	4	4	4	4	5	3	N	4	5	5	4	4	4	4	Y	Y	
07/26	Stage school	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/27	BACS / Chqps	Y	3	3	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/29	Register of Electors	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/31	File Controls	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/32	Accountancy Estimates	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/33	Cash collection	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/34	Creditors - P Darby	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/35	Creditors - M Shanks	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
	Financial planning / Treasury																				Recommendation: risk level set too high
07/22	management	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/37	Housing benefits fraud investigations	Y	4	4	4	4	4	4	3	4	Y	4	4	4	4	4	4	4	Y	Y	
07/38	Housing repairs and maintenance - Gas	Y	5	5	5	5	5	5	4	3	Y	5	5	5	5	3	5	5	Y	Y	
	Housing repairs and maintenance - Planned																				
07/38	Housing repairs and maintenance - Neighbourhood wardens/dog fouling/dog warden	Y	4	4	4	4	4	4	4	4	Y	4	4	4	4	4	4	4	Y	Y	
07/40	Licences - Justices	Y	5	5	5	5	5	5	4	4	Y	5	5	5	5	4	5	5	Y	Y	
07/44	Planning enforcement	Y	4	4	4	4	4	4	5	3	Y	4	5	5	4	4	4	4	Y	Y	
07/45	Housing benefits - Council tax, Rent allowances & other	Y	5	5	5	5	5	5	5	5	Y	5	5	5	5	5	5	5	Y	Y	
07/50	Crematorium	Y	4	4	5	5	5	5	5	5	Y	3	5	4	5	4	5	5	Y	Y	
07/60		Y	4	4	5	5	5	5	5	5	Y	4	4	4	4	4	4	4	Y	Y	
Results 2006/07		100	4.36	4.42	4.45	4.39	4.42	4.39	4.33	4.21	93.94	4.33	4.52	4.55	4.67	4.33	4.45	4.45	100	100	
Results 2005/06		95	3.95	3.65	3.85	3.8	3.7	3.8	3.85	3.7	95	3.8	3.75	4.2	4.2	3.85	4	3.85	95	95	
Performance		5%	0.42	0.77	0.60	0.59	0.72	0.59	0.48	0.51	-1.06%	0.53	0.77	0.85	0.47	0.48	0.45	0.60	5%	5%	
		10.60%	21.10%	15.60%	15.50%	19.50%	15.50%	15.50%	12.50%	13.80%		14%	20.50%	8%	11.20%	12.50%	11.25%	15.60%			

Average 14.5% improvement  
Average score 4.42



# **CITY OF DURHAM COUNCIL**

## **ANTI FRAUD AND CORRUPTION POLICY**

**PREPARED BY:  
INTERNAL AUDIT DIVISION**

## **CITY OF DURHAM COUNCIL**

### **ANTI-FRAUD AND CORRUPTION POLICY STATEMENT**

#### **Background**

Nationally, fraud and corruption continues to be a part of business life and significant losses over the last few years, which have been widely publicised, have drawn much public attention to the subject.

There has always been reluctance in some quarters to disclose information on incidents of fraud and corruption, and the absence of any statutory obligation upon organisations to disclose such crime certainly hampers any attempt to provide a reliable estimate of the extent of the abuse. It is sufficient to recognise that those activities, which are reported, are only the tip of the iceberg, and it is believed that only 10% of all fraudulent activity ever becomes public knowledge.

Several organisations have sought to put a figure on the losses suffered as a result of fraud alone. Nationally, it is considered that fraud in larger organisations represents losses of between 2% and 5% of gross annual turnover. With regard to public sector fraud, and in particular local government, an Audit Commission survey has shown that there are currently 54,000 identified instances of fraud a year involving losses of £25m in England and Wales alone. 80% of the value of this fraud concerned benefit fraud; cash income, expense claims and allowances; payroll and creditor payments were identified as other prominent areas of activity for fraudulent behaviour.

Corruption is less easily measurable, as it may not result in financial loss and corrupt inducements cannot always be measured in financial terms. Allegations of corruption do however, tend to be very damaging to the reputations of organisations and individuals.

Home Office records show a significant rise (36% over 10 years) nationally, in the number of frauds in England and Wales. Whether this is due to a rise in the incidence of fraud or merely a rise in detection rates is unclear. What is clear, however, is that the cultural changes taking place within local government, particularly as a result of the best value review process and the Comprehensive Performance Assessment have increased the risks of fraud and corruption.

As part of the Council's commitment to protecting public funds, and to make the most efficient and effective use of resources it is responsible for, it is essential that the risk to the Council of financial losses due to fraud, corruption and financial impropriety are minimised.



## **Commitment**

City of Durham Council is committed to maintaining the highest standards of local government administration and service provision within the District and to ensuring that citizens of Durham have complete confidence that the affairs of the City Council are conducted in a manner that ensures that the inherent probity and accountability of the organisation is maintained. As part of this commitment the City Council is committed to combating fraud, corruption, and any other financial impropriety (e.g. Theft) wherever it may arise in relation to any of the Council's activities or services and, in achieving this aim, realises this involves any Councillor or Officer of the Council or member of the public or any other third party associated with the Council's activities.

## **Standards**

City of Durham Council expects officers and members to demonstrate the highest standards of honesty, probity, openness and integrity in the discharge of their functions. They are expected to comply with all relevant Legislation, the Council's Constitution, Contract Procedure Rules, Financial Procedure rules, Financial Regulations, Conditions of Service, Codes of Conduct, standards of professional bodies and any other standards, guidelines, directives or instructions that may be relevant to any particular service or activity.

City of Durham Council will provide a corporate framework within which counter fraud arrangements will be embedded.

City of Durham Council will openly promote an anti-fraud and corruption culture across the whole of the Council.

The Council expects that all external individuals and organisations that it deals with e.g. suppliers, contractors, partners, bodies funded by the Council, agents for the Council, service providers, clients, customers, claimants and members of the public, etc. will act with honesty and integrity and without thought or actions involving fraud, corruption or financial impropriety. In such relationships the principles outlined in this policy must be applied. Where external third parties become aware of any fraud and corruption they should report their concerns promptly to the Council.

## **Implementation**

City of Durham Council is committed to establishing and maintaining an effective control environment within the authority in order to deter fraud, corruption and financial impropriety. Where fraud or corruption is suspected City of Durham Council will use its best endeavours to identify causes and rigorously pursue action against the persons and associates involved. The Council recognises, however, that situations of fraud, corruption and financial impropriety cannot always be prevented and so effective arrangements have been established to detect, report and investigate all incidents or situations where they are suspected.

City of Durham Council is committed to creating and maintaining an anti fraud and corruption culture which promotes the highest standards of conduct. To achieve this City of Durham Council actively supports its Confidential Reporting Policy which enables Councillors, employees and other external parties to freely and confidentially express concerns about other officers, systems or events without fear of repercussions or intimidation and in the knowledge that the information will be treated confidentially and will be investigated fully and rigorously.

City of Durham Council will not tolerate dishonesty on the part of any Councillor or its employees or any person or organisation involved in any way with the City Council. Where fraud or corruption is detected the City Council will rigorously pursue appropriate action against the persons concerned including legal and/or disciplinary action and wherever possible and deemed appropriate, will take action to recover any losses suffered.

Where necessary City of Durham Council will co-operate fully with the police and other relevant organisations and agencies in order to prevent, detect and combat fraud and corruption within the District and the public sector arena.

#### **Awareness**

City of Durham Council will give wide publicity to its stance on Fraud and Corruption embodied in this policy which will be publicised internally and externally to the Council. All officers, members and other associated bodies/persons with whom City of Durham Council conducts its business will be made aware of this policy and its supporting framework and are required to report any cases of suspected fraud or corruption.

**CITY OF DURHAM COUNCIL**

**ANTI FRAUD AND  
CORRUPTION POLICY  
OPERATIONAL ARRANGEMENTS**

**PREPARED BY:  
INTERNAL AUDIT DIVISION**

## 1.0 INTRODUCTION

- 1.1 The standards of financial administration expected in the City of Durham Council have always been high. Though nationally, over the years, the level of organised crime is rising, there has been no noticeable increase in the number of fraud cases in Durham. Working in conjunction with the Audit Commission and our own Internal Audit Division the Authority endeavours to promote high standards of internal control.
- 1.2 This document:
- a) defines what fraud, corruption and financial impropriety is.
  - b) outlines the approach and arrangements the Council has adopted to fulfil its commitment to combating fraud, corruption and financial impropriety wherever it may arise in relation to any of the Council's activities or services.
  - c) describes the responsibilities within the Council for dealing with the threat of fraud, corruption and financial impropriety.
- 1.3 Although individual frauds rarely involve large amounts, it is the totally disproportionate and long lasting damage inflicted by a small number of offenders to the good reputation and integrity of the vast majority of Council staff that is a real issue. Preventing fraud and reporting concerns about the possibility of misuse of public funds is a collective responsibility of all staff
- 1.4 All Members', and Officers of the Authority will be governed by the Authority's Fraud and Corruption Policy. In addition it also applies to persons, companies and organisations in respect of their dealings with the City of Durham Council. Other arms-length arrangements, initiatives and schemes where the City of Durham Council has an interest are also included.
- 1.5 In relation to the prevention and detection of fraud and corruption it is important that all staff and management are aware of :-
- *The circumstances and environments in which fraud or waste and extravagance flourishes*
  - *What to do if they discover or suspect fraud*
  - *How to prevent fraud and corruption*
- 1.6 This protocol addresses these three problems, and in particular it provides information to staff at any level who become aware of behaviour either within, or external to the Authority, which they think may be fraudulent or corrupt.

## 2. WHAT IS FRAUD?

2.1 Generally fraud is defined as:

**“The intentional distorting of financial statements or other records by persons internal or external to the organization which is carried out to conceal the misappropriation of assets or otherwise for gain”** (Fraud Audit Manual, the Audit Commission)

2.2 However, with the introduction of the Fraud Act 2006 the term fraud has now been statutorily defined and widened for the first time. The Fraud Act 2006 received Royal Assent on the 8<sup>th</sup> November 2006 and came into effect on the 15<sup>th</sup> January 2007 The Act creates a new general offence of fraud with three ways of committing it:

- Fraud by false representation
- Fraud by failing to disclose information, and
- Fraud by abuse of position

It also creates new offences of:

- Obtaining services dishonestly
- Possessing, making and supplying articles for use in frauds
- Fraudulent trading applicable to non-corporate traders

Fraud by false representation – a person is in breach if he/she dishonestly makes a false representation and intends, by making the representation: to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss. (Note a representation is false if it is untrue or misleading or the person making it knows that it is or might be untrue or misleading)

Fraud by failing to disclose information – a person is in breach if he/she 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.

Fraud by abuse of position – a person is in breach if he/she 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; intends by means of the abuse of that position to make a gain for himself or another, or to cause loss to another or expose another to a risk of loss. (Note a person may be regarded as having abused his position even though his conduct consisted of an omission rather than the act)

Obtaining services dishonestly – it is an offence for any person, by any dishonest act, to obtain services for which payment is required, with intent to avoid payment. The person must know that the services are made available on the basis that they are chargeable, or that they might be. It is not possible to commit the offence by omission alone and it can be committed only where the dishonest act was done with the intent not to pay for the services as expected.

Possessing, making and supplying articles for use in frauds – it is an offence for a person to possess or have under his control any article for use in the course of, or in connection with any fraud. It is also an offence to make, adapt, supply or offer to supply any article knowing that it is designed or adapted for use in the course of or in connection with fraud or intending it to be used to commit or facilitate fraud.

Fraudulent trading applicable to non-corporate traders – it is an offence for a person knowingly to be a party to the carrying on of fraudulent business, where the business is not carried on by a company or a corporate body. A person commits the offence if he is knowingly party to the carrying on of a company's business either with intent to defraud creditors or for any other fraudulent purposes.

2.2 Fraud can occur in a number of ways including:-

- Fraud perpetrated against the Council by members of the public or other third parties
- Fraud perpetrated against the Council by Councillors or employees of the Council
- Fraud perpetrated jointly by members of the public or other third parties in collusion with Councillors or Council employees.

2.3 Fraud is a deliberate act by an individual or a group of individuals acting in collusion and can involve both council officers and members and non-council personnel. Fraud is therefore always intentional and dishonest. Fraud does not however, include misappropriation of assets which does not involve the distortion of financial statements or other records. It does not therefore include theft of cash or property.

2.4 Vulnerable and high risk areas within the Council include:

- a) Misappropriation of cash (any situation where cash or cheques are received or collected), failure to account, borrowing by delaying paying monies in, falsifying of receipts, not issuing receipts etc.
- b) Credit income e.g. deliberately issuing invoices for wrong amounts, unauthorised writing off of debts.
- c) Payroll e.g. falsification of records (time sheets, flexi records, overtime claims etc.), creation of fictitious employees.

- d) Creditor payments e.g. deliberate payment for goods and services not received, payments to fictitious persons or companies, invoices deliberately paid twice, quantities overstated, prices overstated etc.
- e) Contract payments, e.g. payments for work not completed or not in accordance with specification or valuation.
- f) Expenses claims e.g. over-claiming of expenses
- g) Benefits e.g. over-claiming by claimants, over-claiming by landlords, unauthorised claims set up by employees (payment to self, family, friends etc)
- h) Stores and stocks e.g. creation of fictitious issue records or goods received notes.
- i) Cheques e.g. interception and alteration of payee, amount, unauthorised use of cheques
- j) Grants e.g. false or duplicate claims overstatement of claims.

### 3 WHAT IS CORRUPTION

3.1 Corruption is defined as:

**“...the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person...”**

(Fraud Audit Manual, the Audit Commission).

3.2 In this instance an insider (an officer or member of the City of Durham Council) will obtain benefit indirectly from a transaction executed for the direct benefit of a third party. This benefit may be in cash, in kind or as a favour. Such unlawful behaviour obviously includes collusion.

Whilst corruption is the end result of the activity under investigation, it must, of necessity also include bribery as a linked offence as some form of consideration must pass between the parties involved before the offence of “corruption” becomes worthwhile to the officer or member concerned.

3.3 The law in respect of corruption is very different from that for all other offences. Under the Prevention of Corruption Act 1916, there is a presumption that if monies have been paid or other consideration given, this was done corruptly unless the contrary can be shown. In these circumstances it rests with the accused person to prove innocence rather than the accuser or investigator to prove guilt.

3.4 As the transaction generally involves benefit to both parties, there is also the fact that both parties stand to be found guilty of corruption. This probably accounts for why there are so few examples of corruption ever exposed – as there is no real incentive for either party. We should not however assume that corruption is widespread, but it would be realistic to assume that corruption may take place. Where corruption is identified, the Police should be informed of all cases as only they have the necessary authority to investigate third parties and members of the public.

3.5 Vulnerable and high risk areas of activity within the Council include:

- a) Tendering and award of Contracts,
- b) Settlement of contractors’ final accounts and claims,
- c) Appointment and reward of outside consultants,
- d) Pecuniary interests of non-executive directors / officers,
- e) Canvassing for appointments,
- f) Acceptance of hospitality,
- g) Pressure selling,
- h) The awarding of permissions, planning consents and licences; lettings; and disposal of assets.

#### **Financial Impropriety**



3.6 While this document has been developed to meet the risk of fraud and corruption, it is also considered to meet equally the risk of financial impropriety generally. This would include;

- a) theft of cash or property
- b) deception / false representation
- c) Forgery

## **4 SCOPE**

- 4.1 The Anti Fraud and Corruption Policy and supporting documentation apply to the whole of the Council.
- 4.2 Other criminal activity against the Council e.g. break ins, burglary, criminal damage etc committed by non-council employees are not covered by the Anti Fraud and Corruption Policy. In such cases communication should be made to the Director of Financial Services in accordance with Financial Regulations 3.33 and 4.19.
- 4.3 It should be noted that the Council has adopted a separate policy and framework in respect of;
  - a) Benefit fraud (including housing benefit, council tax benefit and other state benefits) Any allegations in respect of benefit fraud are therefore subject to this separate framework.
  - b) Money laundering – as part of the Money Laundering Regulation 2003 and its commitment to high standards of honesty and integrity, it is a requirement of the Council to report to the Police any incidents where any of its Councillors or employees when working on Council business, know or suspect money laundering activity is taking place. Suspicions of this nature should be reported as outlined in the Council's policy and procedures regarding Anti Money Laundering arrangements.
- 4.4 For the Council's Anti Fraud and Corruption Policy to be effective it requires the involvement and co-operation of Councillors, employees, suppliers, contractors, partners, consultants, service providers, clients, customers, claimants and members of the public. This co-operation involves acting with honesty and integrity and without thought or actions involving fraud, corruption or financial impropriety, and where they become aware of any such circumstances, reporting their concerns promptly to the Council as outlined in this document.

## **5 APPROACH**

5.1 The City Council's approach to ensure that loss due to fraud, corruption and financial impropriety is minimised is:

- a) To develop and maintain a culture of honesty, openness, and opposition to these acts within the Council and in its relationship with outside individuals and organisations.
- b) To have a series of comprehensive procedures in place to prevent, frustrate and deter fraud, corruption and financial impropriety, and where they do occur, detect and take effective action against any attempted or actual act affecting the Council.

## **6 CULTURE**

- 6.1 To be most effective, the Anti Fraud and Corruption Policy and supporting arrangements need to apply within an overall culture in the City Council which positively promotes the highest standards of openness, integrity, accountability, objectivity, selflessness and honesty and which makes it absolutely clear that the Council will not tolerate dishonesty on the part of any of its Councillors, employees or any persons involved in any way with the City council
- 6.2 To foster such a culture within the organisation the Council has adopted a number of policies, codes, arrangements and procedures which:
- a) ensure that all persons involved with the Council providing services are fully aware of and in agreement with the culture the Council seeks to maintain
  - b) communicate a consistent message regarding the values and expected conduct of persons working for or involved with the Council in any capacity.
- 6.3 These policies, procedures, codes and arrangements include:
- Constitution (including Codes of Conduct for Members and Officers, Contract Procedure Rules, Financial Procedure Rules and Financial regulations, and scheme of delegation)
  - Whistle Blowing Policy
  - Anti Fraud and Corruption Policy and supporting arrangements
  - Money Laundering Policy
  - Disciplinary procedures
  - Recruitment, selection and vetting procedures
  - Grievance procedures
  - Dignity at Work Policy
  - Equalities
  - Effective Internal Audit function
  - Sound internal control procedures and reliable records
  - Customer feedback arrangements
  - Induction and Training processes
- 6.4 The responsibility for the maintenance and promotion of an anti fraud culture rests with those involved in the Council who provide political direction, determine policy, and provide management and supervision. The Council expects that Councillors and employees at all levels within the Council who have responsibility for these functions will actively promote an anti fraud and corruption culture through:

- a) Providing leadership by:
    - i. Endorsing and publicising the Council's Anti Fraud and Corruption Policy, particularly the routes by which concerns can be raised, not only by Councillors and employees, but also by those outside the Council who are providing, using or paying for public services.
    - ii. By being an example to others by ensuring adherence to legal requirements and internal Council regulations.
  - b) Organising effective induction and training which should include briefings regarding expected standards of conduct, and references to anti fraud and corruption arrangements.
  - c) Encouraging the reporting of any suspicions of fraud, corruption or financial impropriety by Councillors, employees, the public or any other third party with whom the Council works in providing services.
  - d) Treating seriously any suspicions reported to them and dealing sensitively with the person reporting the information.
  - e) Dealing swiftly and robustly with those who defraud the Council or who act in a corrupt manner.
  - f) Raising any concerns that they themselves may have regarding fraudulent or corrupt activity or financial impropriety
  - g) Maintaining effective internal control arrangements designed to combat fraud, corruption and financial impropriety.
- 6.5 The Council believes that the maintenance of a culture of honesty and openness is an important component in tackling fraud, corruption and financial impropriety.

## **7 PREVENTION OF FRAUD AND CORRUPTION**

7.1 The Council recognises that acts of fraud, corruption or financial impropriety can be costly both in terms of financial losses and reputation and therefore the Authority's major objective is to raise awareness of the problem with a view to minimising losses arising and to protect the integrity of the Authority.

7.2 The Council also recognises the importance of adopting measures that will significantly help to reduce the risk of fraud, corruption and financial impropriety. These can be broken down into a number of significant areas:

### Employees of the Council

7.3 A key preventative measure in the fight against fraud, corruption and financial impropriety is to ensure that effective steps are taken at the recruitment stage to establish, as far as possible, the previous record of potential employees, particularly in terms of their propriety and integrity. It is important that temporary employees including Agency staff should be treated in the same manner as those appointed to permanent posts.

7.4 It is important therefore that recruitment must follow procedures laid down in the Council's recruitment and selection procedures. In particular written references should be obtained with specific assurances obtained regarding the known honesty and integrity of potential employees before a formal employment offer is made. In addition all qualifications should be carefully scrutinised and where appropriate suitable job vetting procedures carried out e.g. criminal record bureau checks etc.

7.5 All employees must be aware of and give a written undertaking to abide by the Council's Code of Conduct for Employees which sets out the Council's requirements on personal conduct. The Code of Conduct provides guidance for employees in respect of relationships, information disclosure, personal interests, the acceptance of fees, gifts, hospitality or other rewards. Relevant registers must be maintained and monitored.

Employees also have a duty to act within any other statutory or Council regulations; and follow any code of conduct related to a professional institute or association of which they are members. Where Authority wide procedures apply, managers must ensure that staff are aware of these and trained in their appliance. Managers should also check compliance to the procedures.

7.6 The Council also has in place disciplinary procedures for all employees. Any breach of conduct will be dealt with under these procedures and may result in dismissal.

- 7.7 Employees are often the first line of defence in preventing fraud, corruption or financial impropriety. The Council's Code of Conduct places a responsibility in this regard on all employees. Employees should therefore report any concerns that they may have.

#### Councillors

- 7.8 Councillors are required to operate within the Council's Constitution and any other statutes or Council regulations which are relevant to them in carrying out their duties.
- 7.9 These matters and other relevant guidance should be brought to the attention of Councillors at the induction process for new Councillors. Specific emphasis on the rules regarding the declaration and registration with the Chief Executive of potential areas of conflict between Councillors Council duties and responsibilities and any other areas of their personal or professional lives should be included.
- 7.10 The Local Government Act 2000 requires all Councillors to give a written undertaking to comply with the Code of Conduct, if they are to remain on the Council.
- 7.11 Through approving an Anti Fraud and Corruption Policy, Councillors are expected to play an important role through leading by example and being seen to support it.
- 7.12 The Council has in place a Scrutiny process whose remit includes the review of decisions and actions undertaken by the Council. Any matter arising from this process, in which fraud, corruption or financial impropriety is suspected, must be referred to the Chief Executive or the Council's Monitoring Officer for subsequent referral to the Standards Board for England for independent investigation.
- 7.13 The Council has also established a Standards Committee, which has independent representatives within its membership to examine issues of misconduct by Councillors.

#### Risk Management and Internal Control arrangements

- 7.14 In order to ensure that the Council achieves its stated objectives it has adopted robust risk management arrangements both corporately and within Services, in order to continually identify any risks that may affect the Councils progress and to ensure that the risks identified are being effectively managed.

One of the risk areas reviewed is that relating to finance. Within this area the risk of loss to the Council due to fraud, corruption, or financial impropriety is considered.

- 7.15 In order to control and manage the constant presence of financial risk and ensure that it is kept within acceptable levels the Council has in place a framework of sound practices, procedures, systems, controls, protocols, working practices, standards of good practice, regulations and monitoring arrangements supported by effective management and supervision. This framework incorporates efficient and effective internal controls which seek to prevent, deter and detect fraud, corruption and financial impropriety.
- 7.16 The Councils Financial Procedure Rules and Financial regulations require that Heads of Service and their managers maintain effective systems, controls and procedures in their areas of responsibility which seek to prevent and detect fraud, corruption and financial impropriety. It is the responsibility of all employees to comply with working practices and procedures laid down within systems and relevant council procedures and codes of practice.
- 7.17 The Council's Internal Audit Section independently review and report on the appropriateness and effectiveness of the internal controls in place on an ongoing basis, using a risk based approach. Internal Audit is also subject to an independent annual review of its effectiveness as part of the Statement on Internal Control.
- 7.18 Heads of Service and Directors are expected to keep under continual review the internal control processes of systems under their responsibility, particularly where such systems have not been reviewed by Internal Audit in that year. This is to ensure continued adherence to 'key' internal controls identified for all major systems and communicated to Heads of Service by Internal Audit.
- 7.19 As part of this continual review, Heads of Service and Directors are also required to complete and sign an annual assurance statement outlining the key features of the systems of internal control, within their area of responsibility. This allows them to identify whether the arrangements set out are in place and operating effectively, identify problems encountered and set out action that has been taken or is proposed to address those issues.
- 7.20 The Director of Financial Services (Section 151 Officer) has statutory responsibility for ensuring that arrangements are in place for the proper administration of the City Council's financial affairs. Under the Accounts and Audit Regulations 2003 (revised) as the responsible financial officer the Director of Financial Services is also required to determine the accounting control systems which include measures for the prevention and detection of fraud and inaccuracies. In addition a detailed statement on Internal Control is annually prepared, considered and approved by the Audit Overview Committee for publication with the Councils Statement of Accounts



### Co-operation with others

7.21 The Council is committed to working and co-operating with other organisations to assist in the prevention of fraud, corruption and financial impropriety. Wherever possible the Council is prepared to receive from and provide help to and exchange information with other Councils and third parties in the fight against fraud. The Council takes part in anti fraud and corruption initiatives where appropriate including the Audit Commissions nationwide data matching exercise.

Organisations with whom the Council has liaised for the purposes of the prevention and detection of fraud, corruption and financial impropriety include;

- Audit Commission
- North East Fraud Forum
- National Anti Fraud Network
- CIPFA Better Governance Forum
- Chief Financial Officers Audit sub group
- Other local authorities
- Durham Police

## **8. DETECTION**

- 8.1 The Council's primary objective is to try and prevent fraud, corruption and financial impropriety from occurring in the first place. The Council recognises, however, that if incidents do occur management arrangements and systems of internal control are in place to identify irregularities at the earliest opportunity, wherever reasonably possible. Some irregularities will only come to light if other monitoring or review arrangements are effective or if information is received from persons who suspect that irregularities may be occurring.
- 8.2 Arrangements that have been put in place by the Council which seek to detect the occurrence of fraud, corruption or financial impropriety at an early stage are:
- a) Council Regulations that require Directors, Heads of Service and their managers to take responsibility for maintaining a system of internal control which not only seeks to prevent fraud but also detects it at an early stage should it occur.
  - b) The Council's Internal Audit and External Audit functions liaise closely through a programme of risk based audit work which reviews the effectiveness of internal control and tests the effectiveness of arrangements in place to safeguard assets and the efficient and effective use of resources. Some of this work proactively tests for the occurrence of fraud.
  - c) All of the employees of the Council are required to report promptly any suspicions or acts of fraud, corruption or financial impropriety of which they become aware. A failure to report any suspicions may result in disciplinary action being taken.
- 8.3 The Council is aware that despite its best efforts fraud, corruption or financial impropriety is often discovered by chance or through "Whistle Blowing". It is often through the alertness of not only its employees but members of the public, other authorities, agencies, partners or suppliers that fraud, corruption or financial impropriety is detected.
- 8.4 In acknowledgement of the numerous sources from which suspicions of fraud, corruption or financial impropriety may come, to encourage reporting, and in recognition of the importance to the Council's Strategy of both employees and other third parties, the Council has developed a Fraud Response Plan. This document provides a clear path for raising concerns regarding fraud, corruption or financial impropriety from whatever source. The Council will promote this widely and in an appropriate manner to all potential sources e.g. employees Councillors, members of the public.
- 8.5 Directors and Heads of Service are responsible for following up any allegation of fraud, corruption or financial impropriety from whatever source and are required

under financial regulation 3.56 *“To ensure that all suspected irregularities are reported to the Head of Internal audit immediately”*

More details can be found in the Council’s Fraud Response Plan.

## **9 INVESTIGATION**

- 9.1 Where a suspicion of fraud, corruption or financial impropriety is received by the Council, the Council is committed to ensuring that all such reports will be treated in confidence, will be taken seriously and that the matters raised will be investigated in a fair, thorough and careful manner. To this end the Council has adopted a Fraud Investigation Plan, which will ensure that:
- a) each report of fraud, corruption or financial impropriety will be treated on a consistent basis.
  - b) all reported incidents will be reviewed independently and on a timely basis by independent, suitably trained and suitably experienced persons.
  - c) each investigation performed will be adequately resourced, will be based on professional standards and will enable a thorough and fair investigation to take place in accordance with the Council's disciplinary procedures, relevant legislation and other relevant guidance and standards.
- 9.2 Irrespective of the source of the report of potential fraud, corruption or financial impropriety to the Council and the nature or gravity of the alleged irregularity, the matter will be taken seriously by the Council's management and reported immediately to the Head of Internal audit for consideration.
- 9.3 Following an initial assessment of any allegation made, the Head of Internal Audit in conjunction with the Director of Financial Services, the relevant Head of Service, Head of Cultural Resources, the Executive Director, Monitoring Officer and other appropriate parties (Fraud Response Team) will consider the most appropriate way forward. At the conclusion of any investigation a report will be issued to the relevant Head of Service for consideration.
- 9.4 The Council's Anti Fraud and Corruption Policy states that it will not tolerate dishonesty on the part of any of its Councillors, employees or any person or organisations involved in any way with the delivery of services of the Council. Where fraud, corruption or financial impropriety is detected the City Council will rigorously pursue appropriate action against the persons concerned including legal and/or disciplinary action, and wherever possible and when deemed appropriate, will take action to recover losses suffered.
- 9.5 If at any stage during an investigation conducted by the Council it is suspected or becomes apparent that acts of a criminal nature may have occurred then the Police may be contacted by the Head of Internal Audit after due consideration with the Fraud Response Team and the Director of Financial Services.
- 9.6 Where the Police conduct a criminal investigation, the Council's internal investigation, and any subsequent sanction, e.g. disciplinary action, will not

normally be delayed until the completion of the Police investigation work and any subsequent criminal prosecution, unless there are grounds to do so.

## **10 TRAINING AND AWARENESS**

10.1 The Council recognises that the continuing success of its Anti-Fraud and Corruption Policy and its general credibility will depend largely on the effectiveness of a structured programme of training and awareness, appropriate communication and the responsiveness of its employees throughout the organisation.

10.2 To facilitate this, the Council:

- a) supports the concept of full induction, training and follow up to ensure that responsibilities and duties in this respect are regularly highlighted and reinforced.
- b) will provide relevant details of the Anti Fraud and Corruption Policy and Operational Guidelines to all Councillors and employees.
- c) will include in its induction programmes relevant training in the Council's Anti Fraud and Corruption Policy, Whistle Blowing Policy and Code of Conduct, in particular highlighting the responsibilities of the individuals concerned. Individuals will be required to positively indicate their awareness and understanding of their responsibilities by providing a written undertaking that they will comply with the provisions. The possibility of disciplinary action against its employees who ignore such training or who do not comply with proper processes within internal systems will be made clear.

Induction training will also be provided to casual, temporary and agency staff and any other individuals who work for/with the Council in the provision of its services who may not be aware of the high standards of honesty and integrity that are required by the Public Sector. Similarly partner organisations working with the Council will be made aware of the Council's standards and required to uphold them.

- d) Support and training will be provided to Council employees responsible for the creation and maintenance of systems of internal control, particularly those relating to financial areas, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced.
- e) The Council will provide appropriate resources to aid managers to meet their commitments in this respect, e.g. provision of advice, updates on potential incidents of frauds from Internal Audit, publication of material on Council's intranet and training sessions.

- f) Council employees involved in the review of internal control systems, e.g. Internal Audit staff, and in performing investigation work will be appropriately and regularly trained.
- g) Using the most appropriate means the Council's Anti Fraud and Corruption Policy and fraud reporting arrangements shall be publicised in the public domain, e.g. the public, service users, suppliers, etc

## **11 DETERRENCE**

11.1 The Council believe there are a number of ways to deter potential fraudsters from committing or attempting fraudulent or corrupt acts, whether they are inside and/or outside of the Council, and these include:

- a) publicising the fact that the Council is firmly set against fraud, corruption and financial impropriety and states this at every appropriate opportunity e.g., clauses in contracts or agreements, statements on claim forms, publications, reporting where appropriate the outcomes of fraud investigations etc;
- b) acting robustly and decisively when fraud, corruption and financial impropriety are suspected and proven e.g., the termination of contracts, dismissal, prosecution, etc. and publicising the outcomes where it is considered appropriate to do so.
- c) taking action to effect the maximum recoveries for the Council e.g. through agreement, Court action, penalties, insurance, etc.
- d) having sound internal control systems, that still allow for innovation, but at the same time do not provide the opportunity for fraud, corruption or financial impropriety.



## **12 REVIEW**

12.1 The Council is determined that the arrangements outlined in this document will keep pace with any future developments, in both preventative, detective and investigative techniques, regarding fraudulent and corrupt activity that may affect the Council's operation or related responsibilities. To this end the Council will:

- a) maintain a continuous overview of such arrangements, and
- b) periodically review the Council's Anti Fraud and Corruption Policy and associated documentation;

to ensure they remain current and effective.

12.2 The Head of Internal Audit will be responsible for the periodic review of the Council's Anti Fraud and Corruption Policy and associated documentation and arrangements

## **13 CONCLUSION**

- 13.1 The Council is committed to combating fraud, corruption and financial impropriety wherever it may arise in relation to any of the Council's activities or services and, in achieving this aim, realises this involves any Councillor, employee of the Council or member of the public or any other third party associated with the Council's activities.
  
- 13.2 This document outlines how the Council will seek to achieve its aim. The Council will continue to develop and maintain an anti fraud and corruption culture and a robust framework of systems and procedures that will assist in preventing fraud, corruption and financial impropriety and in taking appropriate action when irregularities come to light

## **RESPONSIBILITIES OF COUNCIL MEMBERS & OFFICERS**

The management and control of the policy is the responsibility of all members and employees of the City of Durham Council who to varying degrees have specific areas of responsibility as set out below:

### **Elected Members of the City of Durham Council**

The City Council's Audit Overview Committee formally approves the Council's Anti Fraud and Corruption Policy and any subsequent changes.

Councillors should act as an example to others by ensuring adherence to legal requirements and internal Council regulations.

Councillors, where they suspect fraudulent or corrupt activity, have a duty to promptly report the matter to the Council in line with the Council Policy

### **Chief Executive**

To be responsible on behalf of the City of Durham Council for ensuring that the Policy is complied with at all times.

### **Director of Financial Services**

To ensure that all Heads of Service are made aware of the Policy and any revisions which are made to the Policy.

The Director of Financial Services will be responsible for monitoring the effectiveness of the procedures and the periodic review of the Council's Anti Fraud and Corruption Policy as well as associated documentation and arrangements

The Director of Financial Services has overall responsibility for the Council's response to fraud, corruption or financial impropriety.

### **Directors / Heads of Service**

Each Director/Head of Service is responsible for the implementation and operation of the Policy within his / her Service.

Each Director/Head of Service is responsible for implementing and maintaining an adequate system of internal control within their service. This includes the responsibility for the prevention and detection of fraud, corruption and financial impropriety.

Directors/Heads of Service shall put in place procedures to ensure that employees within the service are informed of, and understand, the standards of conduct expected of them,

the relevant provisions of the Council's Anti Fraud and Corruption Policy and their responsibilities in this regard.

These procedures should also include the dissemination of the relevant documentation to employees, (Code of Conduct, Whistle Blowing Policy, Anti Fraud and Corruption Policy, and Fraud Response Plan) and an effective induction and training programme which includes briefings on the documentation described.

Directors/Heads of Service should act as an example to others by ensuring adherence to legal requirements and internal Council regulations and codes of conduct.

Directors/Heads of Service should foster a culture of openness and honesty within their respective services.

### **Line Managers and First Line Supervisors**

Managers are directly responsible for the establishment, implementation and operation of the Anti Fraud and Corruption Policy within their area of responsibility.

Managers are responsible for implementing and maintaining an adequate system of internal control within their area of responsibility. This includes the responsibility for the prevention and detection of fraud, corruption and financial impropriety.

Managers should act as an example to others by ensuring adherence to legal requirements and internal Council regulations and fostering a culture of openness and honesty.

Foster a culture of openness and honesty within their respective services.

Managers should be familiar with the relevant sections of the Anti fraud and Corruption Policy, and Operational arrangements, in particular the Fraud Response Plan.

Managers should promptly report any suspicions of fraud, corruption or financial impropriety to the Head of Internal Audit.

### **Employees**

Employees must adhere to legal requirements, internal Council regulations, e.g. Codes of Conduct, and internal control procedures for which they are responsible.

Each employee should make themselves familiar with and comply with the relevant sections of the Anti Fraud and Corruption Policy, including the Fraud Response Plan and the Council's Whistle Blowing Policy.

It is the responsibility of each employee to assist in the prevention and detection of fraud, corruption and financial impropriety within the Council.

Where an employee suspects fraud, corruption or financial impropriety they should immediately report the matter to the Council in accordance with the provisions of the Council's Fraud Response Plan for Employees.

Employees must co-operate with any investigation into allegations of fraud, corruption or financial impropriety.

It is the responsibility of all employees to comply with working procedures laid down within systems and relevant Council procedures and codes of practice.



**CITY OF DURHAM COUNCIL**

**ANTI FRAUD AND  
CORRUPTION POLICY  
FRAUD RESPONSE PLAN**

**PREPARED BY:  
INTERNAL AUDIT DIVISION**

# Fraud Response Plan

## 1 Introduction

- 1.1 The Council's primary objective is to try to prevent fraud, corruption and financial impropriety occurring in the first place. However the Council's Anti Fraud and Corruption Policy equally acknowledges that occurrences of fraud, corruption and financial impropriety cannot always be prevented and so effective arrangements need to be established to enable all concerns, incidents or situations where fraud, corruption or financial impropriety is suspected to be effectively and promptly reported to the Council and investigated.
- 1.2 Information indicating potential incidents of fraud, corruption or financial impropriety can arise in a variety of ways from various sources and come, initially, to the attention of various groups of people. Examples of this are:
- a) information provided by employees (sometimes anonymously)
  - b) information provided by members of the public (sometimes anonymously).
  - c) information provided by other authorities or agencies, e.g. suppliers, contractor, Police, External Auditor.
  - d) information highlighted by management processes and arrangements.
  - e) information highlighted by controls within systems.
  - f) information highlighted by audit processes or other review arrangements such as, in the case of Housing and Council Tax Benefits, the City of Durham Benefits Investigation Unit.

In these circumstances it is important that the Council has a plan in place which provides clear guidance to those groups of individuals who may have concerns regarding potential fraudulent, corrupt or improper activity. In particular:

- a) Who they should contact and when.
  - b) What they should do.
  - c) What they should not do.
- 1.3 This Fraud Response Plan outlines a corporate framework that will enable suspicions regarding incidents of fraud, corruption or financial impropriety to be reported to the Council from whatever source so that the Council can respond promptly and effectively.



## **2. Benefits to the Council**

- 2.1 By adopting a standard framework for the reporting of suspicions of fraud, corruption and financial impropriety affecting the Council, the following benefits will be realised:
- a) the Council will be able to treat each incident communicated on a consistent basis.
  - b) all persons who have suspicions will have clear direction as to how to raise a concern, e.g. when and who to pass the information to and by what method.
  - c) the prospect of retaining the integrity of evidence is increased.
  - d) all relevant roles and responsibilities in the reporting process will be made clear.
  - e) the risk of subsequent financial losses to the Council will be minimised. Similarly the chances and scale of recoveries will be improved.
  - f) it will reinforce to Councillors, employees, and other third parties the important role they have to play to ensuring that the Council's Anti Fraud and Corruption Policy is effective.
  - g) it will make a clear statement to employees, managers and other third parties that the Council is not a soft target.
  - h) it will demonstrate that the Council will deal seriously with suspected fraud, corruption and financial impropriety.

## **3. Scope**

- 3.1 The Fraud Response Plan described in this document is applicable to all suspected incidents of fraud, corruption and financial impropriety perpetrated against the Council whether from an internal source (e.g. by an employee) or an external source (e.g. outside supplier).

The exceptions to this are suspected incidences of fraud, corruption or financial impropriety to Council Tax Benefit claims and Housing Benefit claims. Details of the action that should be taken by persons suspecting fraud, corruption or financial impropriety with respect to these type of claims are included in the Council's "Anti Fraud and Corruption Policy for Housing and Council Tax Benefits"

## 4. Response Plan

### Foundations

4.1 The Response Plan is based on the following foundations:

- a) the need for suspicions to be reported immediately.
- b) that all potential groups of individuals who may become aware of fraud, corruption or financial impropriety are provided with clear, appropriate guidance as to their responsibilities and the actions they should take, e.g. who they should contact.
- c) that those Council employees designated in the Response Plan as the persons to whom suspicions of fraud, corruption or financial impropriety are reported have a clear understanding of their role, responsibility and actions they should take.
- d) that all allegations received by the Council will be handled confidentially and discreetly by those directly involved in the reporting process. Any leaking of information may jeopardise subsequent investigation work.
- e) the Council strongly encourages all persons who report suspected financial irregularities to put their names to allegations, although it will respect the wishes of individuals who wish to remain anonymous.

Where a person makes their identity known and wishes their name not to be disclosed the Council will do its best to protect the identity of the employee. However it should be noted that the investigation process may reveal the source of the information and a statement may be required from the person as part of the evidence.

Concerns expressed anonymously are much less powerful and unlikely to be effective but the Council will consider these at its own discretion. In exercising the discretion, the factors to be taken into account would include:

- the seriousness of the issues raised.
- the credibility of the concern.
- the likelihood of confirming the allegation from attributable sources.

### How to report suspicions

#### 4.2 *How quickly should suspicions be reported?*

Any individual who suspects fraud, corruption or financial impropriety against the Council should report the matter immediately. Any delay may cause the Council to suffer further financial loss.

In respect of employees, the Council's Financial Procedure Rules require that any Council employee must report any impropriety they suspect or become aware of within the Council immediately.

#### 4.3 *How are concerns to be reported to the Council?*

The way concerns are reported to the Council depends on the relationship the individual has with the Council, e.g. Councillor, employee, contractor, member of the public, service user. The relevant guidance is highlighted below:

##### 4.3.1 Council employees

See Appendix 1

##### 4.3.2 Councillors

Where Councillors wish to report alleged financial irregularities, the normal reporting route should be through the Director or Head of the Service area involved or, alternatively and in situations where it would not be appropriate to report through the Director or Head of Service direct to the Chief Executive or Director of Financial Services.

Specific contact details are described in Appendix 2

##### 4.3.3 Public

For the purposes of the Fraud Response Plan, the term "members of the public" is deemed to include all persons who are not Councillors or employees of the Council, e.g. consultants, suppliers, partners to the Council, persons providing services on behalf of the Council, service users, sub contractors, agency staff. Where members of the public wish to report alleged financial irregularities, the normal reporting route would be to contact the Director or Head of Service area involved or, alternatively and in situations where it would not be appropriate to report to the Director or Head of Service the following can be contacted.

- Director of Financial Services
- Head of Internal Audit
- Chief Executive
- Monitoring Officer
- Director of Corporate Services
- Local Councillor
- Council's external auditor (Audit Commission)

- Police

Members of the public are encouraged to:

- i) put their allegations in writing.
- ii) put their name to the allegations.

as this enables any investigation to be carried out in a prompt and proper manner. Confidentiality will be maintained whenever possible.

Specific contact details are described in Appendix 2.

4.4 *What should a person who suspects fraud, corruption or financial impropriety do?*

A person who has suspicions should:

- a) make an immediate written note of their concerns. As much information as possible should be recorded (without delaying the process) in respect of the allegation. Information which is helpful would be details of the allegation itself, notes of conversations or telephone conversations, dates, times, and the names of parties involved.
- b) convey their suspicions promptly to someone with the appropriate experience and authority as outlined in paragraphs 4.3.1. to 4.3.3 above (“designated persons”) so that the person(s) suspected of improper conduct are not alerted.

4.5 *What should a person who suspects fraud, corruption or financial impropriety not do?*

A person who has suspicions should not:

- a) do nothing. A person should not ignore evidence or information which suggests there may be fraudulent or corrupt activity.
- b) approach or accuse individuals directly. To do so would alert the individuals concerned and may compromise the safety of the person holding the suspicions.
- c) try to investigate the matter themselves. There are special rules surrounding the gathering of evidence, in particular, for use in criminal cases. Any attempt to gather evidence by persons who are unfamiliar with these rules may jeopardise any investigation or case by amending, tampering, destroying or losing data or records, albeit accidentally.
- d) be afraid of raising concerns. The Council is seeking to maintain an anti fraud and corruption culture. Any person who voices a reasonably held suspicion is to be congratulated by the Council. A person who voices a suspicion will not suffer recrimination from the Council.

- e) tell anyone other than those persons described in paragraphs 4.3.1 to 4.3.3 above (“ the designated person”).

#### 4.6 *What should a person to whom a suspicion is raised do?*

The person within the Council who receives a report of a suspicion should:

- a) be responsive to the suspicions being raised and treat the concern seriously. The Council is keen to encourage individuals to voice any reasonably held suspicion as part of developing and maintaining an anti fraud culture. The manager should recognise that the person making the allegation may be afraid or uncertain and may need reassurance.
- b) get as much information as possible from the person reporting their suspicions. All relevant details should be obtained, e.g. times dates, names, activities, places etc. Any documentary evidence held by the person reporting their suspicions, e.g. written notes, should also be obtained. In addition, any documentary evidence which may exist to support the allegations made should be noted but the evidence should not be interfered with or marked in any way, particularly electronic evidence. (This evidence will be looked at as part of any investigation). If the information comes from a third party every effort should be made to ensure that it is possible to make further contact with them.
- c) evaluate the allegation objectively. With the facts as they appear, based on the information provided and the knowledge the designated person has, an initial evaluation needs to be made to determine whether the suspicions appear justified, e.g. do all the facts available seem consistent, correct and stack up?
- d) deal with the matter promptly, if it is felt the concerns are justified.
- e) advise your Director / Head of Service of the concern and your initial view. In line with the Council’s Financial Procedure Rules the Director/Head of Service should then refer the matter to the Head of Internal Audit in line with the Fraud Investigation Plan.
- f) Assist the Internal Audit Services or other authorised organisation in any subsequent investigation work.

#### 4.7 *What should the person to whom a suspicion is raised not do?*

The person within the Council who receives a report of a suspicion should not:

- a) dismiss out of hand or ridicule persons who raise concerns. All concerns must be given a fair hearing and persons raising suspicions should be reassured that they will not suffer recrimination as a result of raising any reasonably held suspicion. To ridicule a person is counter-productive to developing and maintaining an anti fraud and corruption culture as persons would be reluctant to pass on their concerns to management.
- b) approach or accuse individuals involved in the allegations.
- c) try to investigate the matter themselves.
- d) tell others of the suspicions raised other than those with proper authority highlighted in the Fraud Response Plan (paragraph 4.3) and the Fraud Investigation Plan.
- e) attempt to interfere with witnesses or other evidence (both hard copy or electronic).

## Appendix 1

### Anti-Fraud and Corruption Policy

#### Fraud Response Plan

##### Reporting of Suspicions – Employees

1. *Internal Contacts*
- 1.1 An employee has a duty to report any suspected incidents of fraud, corruption or financial impropriety to the Council. The Code of Conduct for employees requires that all employees must comply with the Council's Financial Procedure Rules
- 1.2 An employee should report any suspected fraudulent, corrupt or improper financial activity in accordance with the following circumstances:

- 1 **In normal circumstances** it is usual for an employee to report alleged financial irregularities (e.g. fraud, corruption or financial impropriety) to **his/her line manager**. An employee should specify from the outset if they wish the matter to be treated in confidence so that appropriate arrangements can be made.

The line manager in turn should also report through the management structure. At the appropriate management level (which would normally be Director or Head of Service - but dependent upon the delegation arrangements in place within individual Services) the situation must be reported promptly to the Director of Financial Services via the Head of Internal Audit. The matter will then be dealt with in accordance with the provisions of the Fraud Investigation Plan.

It is envisaged that this would be the approach via which the majority of concerns would be raised

- 2 **Where an employee feels that they are unable to raise a concern with his/her line manager or it is not appropriate for whatever reason** (e.g. the alleged irregularity involves the employee's line manager), the employee should either report to a **different senior manager within the Service**, or, dependent upon the circumstances, direct to the **Head of Internal Audit**.

Where a senior manager is contacted, again the situation should be reported promptly by the Service to the Head of Internal Audit.

It would be appropriate for an employee to report direct to the Head of Internal Audit only if there were reasons to believe that any subsequent

investigation might be compromised if the situation were to be reported through Service managers - the most likely reasons for reporting direct would be because line managers were implicated in the alleged irregularity (and the employee was not sure who it was safe to report to within the Service) or there were reasons to believe that the situation might be suppressed or covered up by senior Service managers

- 3 Although the Council is committed to the highest standards of openness and probity the Council acknowledges that there may be circumstances **where an employee may be reticent to raise a concern because they:**
  - a) **may feel speaking up would be disloyal to their colleagues or their employer**
  - b) **fear harassment or victimisation**

Where this is the case an **employee may follow** the procedures under the provisions of the Council's "**Confidential Reporting Policy**" (**Whistle blowers Charter**).

The arrangements highlighted in the Confidential Reporting Policy are closely linked to the creation of a culture which encourages persons to express their concerns without fear of intimidation or recrimination, and in the confident knowledge that any reported concerns will be treated seriously and, whenever possible, in confidence, and will be fully investigated. Whistle blowing arrangements allow for concerns to be expressed outside the normal line management structure if necessary. One of the important aspects of Whistle blowing is that it enables employees to speak out in a situation where it is usually employees most closely involved with the particular service who are most likely to know if malpractice is occurring.

As the Council's Whistle blowing arrangements are not simply confined to issues involving fraud, corruption or financial impropriety a separate Policy Document deals with the issue of Whistle blowing.

Any issues reported through the "Whistle Blowing" procedures, which involve possible financial irregularities, including fraud, corruption and financial impropriety, would subsequently feed into the procedures outlined in the Fraud Investigation Plan.

- 4 Notwithstanding the reporting steps highlighted above including the Whistle Blowing arrangements, if an employee, for example, feels the **matter is so serious** that he/she cannot discuss it with any of the persons highlighted above, an employee, if they so wish, can report alleged irregularities directly to any of the following:
  - **Director of Financial Services**
  - **the Chief Executive**
  - **the Executive Director**



- **the Director of Corporate Services**
- **the Monitoring Officer**

Specific contact details are described in Appendix 2

## 2 *External Contacts*

- 2.1 It is intended that the internal arrangements described in this Response Plan will give employees the reassurance that they need to raise concerns internally. Should an employee, for whatever reason, **not wish to talk to anyone within the City Council** they can contact any of the following:

- **the Council's External Auditor**
- **the Audit Commission**
- **the Police**

- 2.2 If an employee is unsure as to whether this is an appropriate course of action the independent charity, Public Concern at Work, will be able to give advice on such an option and on the circumstances in which an employee should contact an outside body rather than raise the matter internally.

In reporting a matter to a body external to the Council an employee needs to ensure they **do not disclose confidential information**

Specific details of how to contact bodies external to the Council are described in Appendix 2

## 3 *Advice*

- 3.1 As indicated above it is hoped that the Response Plan will give employees the reassurance that they need to raise concerns internally.

If an employee is unsure whether they should use this procedure they may contact the following people:

- a) the independent charity **Public Concern at Work**. Their lawyers can give free confidential advice at any stage about how to raise a concern about serious malpractice at work including fraud, corruption and financial impropriety.
- b) the **Director of Financial Services**
- c) the **Head of Internal Audit**
- c) the **Council's External Auditor**

Specific contact details are described in Appendix 2.

## 4 *Malicious Allegations*

- 4.1 The Council is committed to developing and maintaining an anti fraud and corruption culture such that employees will feel comfortable to report any genuine suspicion of improper conduct. However employees who maliciously raise a matter that they know to be untrue may be subject to disciplinary action.

Appendix 2 (i)

**Anti-Fraud and Corruption Policy****Fraud Response Plan****Contact Details (Internal)**

<b>Contact</b>	<b>Details</b>
<b>Council</b>	
Director of Financial Services	Tel no: 0191 301 8596 E-mail: ehall@durhamcity.gov.uk Address: 17 Claypath, Durham, DH1 1RH
Head of Internal Audit	Tel no: 0191 301 8607 E-mail pjackson@durhamcity.gov.uk Address 17 Claypath, Durham, DH1 1RH
Chief Executive Executive Director Monitoring Officer Director of Corporate Services	0191 301 8867 0191 301 8868 0191 3018878 0191 301 8885 Address: 17 Claypath, Durham DH1 1RH -
Local Councillors	Web site: <a href="http://www.durhamcity.gov.uk">www.durhamcity.gov.uk</a>

## Appendix 2 (ii)

**Anti-Fraud and Corruption Policy****Fraud Response Plan****Contact Details (External)**

<b>Contact</b>	<b>Details</b>
<b>External to Council</b>	
External Auditor	Tel no: 0191 460 2022 Address : Audit Commission (Northern Office), Nickalls House, Metro Centre, Gateshead, Tyne and Wear, NE11 9NH
Audit Commission	Tel no: Public Interest Disclosure line: 0845 052 2646 Head Office: 020 7828 1212 Address: Chief Executive Audit Commission 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ Web site: <a href="http://www.audit-commission.gov.uk">www.audit-commission.gov.uk</a>
Police	Local Police Station (Yellow pages)
Public Concern at Work	Tel no: 020 7404 6609 E-mail: <a href="mailto:helpline@pcaw.co.uk">helpline@pcaw.co.uk</a> (helpline) <a href="mailto:whistle@pcaw.co.uk">whistle@pcaw.co.uk</a> (enquiries) Web site: <a href="http://www.pcaw.co.uk">www.pcaw.co.uk</a> Address: Public Concern at Work, Suite 306, 16 Baldwin Gardens, London, EC1N 7RJ



**CITY OF DURHAM COUNCIL**

**ANTI FRAUD AND  
CORRUPTION POLICY  
FRAUD INVESTIGATION PLAN**

**PREPARED BY:  
INTERNAL AUDIT DIVISION**

## **City of Durham Council**

### **Anti-Fraud and Corruption Policy**

#### **Fraud Investigation Plan**

##### **1 Introduction**

- 1.1 The Council's Anti Fraud and Corruption Policy acknowledges that the occurrences of fraud, corruption and financial impropriety cannot always be prevented and so effective arrangements need to be established to investigate all incidents or situations where they are suspected and reported to the Council.
- 1.2 As indicated in the Council's Anti Fraud and Corruption Policy and the associated Fraud Response Plan, the Council may become aware of potential incidences of fraud, corruption and financial impropriety by different routes and in different ways, for example:
  - a) via the Council's Whistle Blowing arrangements
  - b) A report or complaint from a Councillor or employee.
  - c) A report or complaint from an external party to the Council, e.g. supplier, member of the public, Standards Board, Audit Commission.
  - d) Discovery by management during routine supervision or monitoring.
  - e) Discovery during assignments carried out by Internal Audit.
- 1.3 Due to the numerous ways and methods that potential incidents may be communicated to the Council it is likely that individuals of different seniority in various parts of the Council may be the recipient of a report of, or become aware of, potential incidences of fraud, corruption or financial impropriety. In these circumstances it is important that the Council has a framework which provides clear guidance with regard to how each suspected case is to be investigated, by whom and when.
- 1.4 The aim of this Fraud Investigation Plan is to outline a corporate process that will enable all incidents of fraud, corruption and financial impropriety to be dealt with in a consistent and effective manner.

## **2. Benefits to the Council**

- 2.1 By adopting a recognised framework for dealing with the potential cases of fraud, corruption and financial impropriety the following benefits will be realised:
- a) the Council will be able to treat each incident on a consistent basis.
  - b) all persons to whom suspected incidents are reported will have clear direction as to how and who to pass the information to.
  - c) all relevant roles and responsibilities in the investigation process will be made clear.
  - d) all reported incidents will be reviewed independently and on a timely basis by independent and experienced persons.
  - e) each review will be based on nationally recognised professional standards and will enable a thorough and fair investigation to take place in accordance with the Council's disciplinary procedures, relevant legislation and other relevant guidance and standards.
  - f) the Council will be able to monitor and record the number of potential and actual cases of fraud, corruption or financial impropriety.
  - g) the Council will minimise the risk of subsequent losses.
  - h) the chance and scale of any recovery of monies will be improved.
  - i) it will be demonstrated that the Council will deal seriously with suspected fraud, corruption and financial impropriety cases.
  - j) it will make a clear statement to employees and external third parties dealing with the Council that it is not a soft target.
  - k) It will ensure compliance with Council's disciplinary procedure by allowing a fair, careful and thorough investigation to take place.

## **3. Investigation Plans**

### Disciplinary Regimes

- 3.1 Due to the different disciplinary regimes for Councillors and employees, the Council has two separate but similar frameworks or "investigation plans", one to deal with the investigation of suspected incidents of fraud, corruption or financial impropriety by Councillors, the other to deal with any investigation of incidents relating to Council employees, agency staff, consultants and associated third parties. These are both outlined below. Appendices 1 and 2 show, in diagrammatic form, the steps involved in each investigation plan.

## Foundations

- 3.2 The investigation plans are based on the following foundations:
- 3.3 It is the responsibility of each Councillor, employee and any third party who becomes aware of a suspected incident of fraud, corruption or financial impropriety to report his/her concern promptly as outlined in the Council's Fraud Response Plan and Financial Procedure Rules.
- 3.4 Irrespective of the source of the report, the nature or gravity of the alleged irregularity, or the Council Service receiving the report, the matter should be taken seriously and reported immediately to the Head of Internal Audit.
- 3.5 Where the allegation of fraud, corruption or financial impropriety relates to the conduct of Directors or Heads of Service the Head of Internal Audit will liaise with the Director of Financial Services who will inform the Chief Executive.
- 3.6 Where an allegation of fraud, corruption or financial impropriety involves a Councillor acting in his/her role as a representative of the Council, the Head of Internal Audit will liaise with the Director of Financial Services who will inform the Chief Executive and the Director of Strategic Services who will inform the Monitoring officer. In accordance with the provisions of the Local Government Act 2000 the Council's Monitoring Officer, may, after an initial review of the allegation, report the matter to the Standards Board for England.
- 3.7 For all allegations of fraud, corruption or financial impropriety other than those relating to:

- the conduct of Councillors,
- Council Tax and Housing Benefit fraud,

it will be the responsibility of the Head of Internal Audit to liaise with the Director of Financial Services and to assemble the Fraud Response Team to consider the allegation.

- 3.8 The Fraud Response Team is made up of the Executive Director (who will chair the meeting) The Director of Financial Services, The Director of Corporate Services, The Director of Strategic Services, The Monitoring officer, The Head of Internal Audit and the relevant Head of Service.
- 3.9 The Fraud Response Team will determine the nature of the alleged concerns and make a decision on whether suspicions are well grounded enough to warrant investigation in line with the Councils Fraud and Corruption Policy and Fraud Response Plan. Initial concerns will be discussed in detail to determine the most appropriate course of action.
- 3.10 The final decision, however, lies with the Director of Financial Services as section 151 Officer.



- 3.11 The Internal Audit Section will also be responsible for taking whatever steps are necessary, in consultation with the relevant Service and other relevant parties, to manage, conduct and control each investigation of a suspected incident where it is deemed appropriate by the Fraud Response Team for Internal Audit to do so. It may be that the nature of an allegation dictates that the relevant service be asked to take responsibility for leading the investigation.
- 3.12 It should be noted that all allegations of Council Tax and Housing Benefit fraud reported to the Council will be investigated and dealt with by the Council's Benefits Investigation Unit in accordance with the Council's Housing Benefit Fraud Policy.
- 3.13 For all allegations of fraud, corruption or financial impropriety relating to the conduct of Councillors it will be the responsibility of the Standards Board of England to investigate the matter and take the appropriate action. Where appropriate, the Standards Board of England may refer the allegation back to the Council for investigation by the Monitoring Officer. In these circumstances the Council will follow the "Local Investigation of Members Procedure" adopted by the Council which outlines how an investigation is to be conducted and the appropriate action to be taken based on the outcomes of the investigation. These procedures allow the Monitoring Officer not only to conduct an investigation him/herself, but also, where appropriate, to appoint another officer of the authority to undertake the investigation, e.g. Internal Audit, or to appoint an outside investigator.
- 3.14 Depending on the nature and complexity of the allegations made it is acknowledged that any investigation into alleged cases of fraud, corruption or financial impropriety will involve working closely with Directors, Heads of Service and Senior Line Managers and may involve the help and expertise of other individuals/organisations both internal (e.g. Personnel, ICT, Legal, Procurement etc) and external to the Council (e.g. Police). This is to ensure that all allegations are properly investigated and reported upon and, where appropriate, maximum recoveries are made for the Council.
- 3.15 The procedures adopted during each investigation, e.g. evidence gathering, interviewing etc. in respect of allegations of fraud, corruption or financial impropriety will take into account all the relevant requirements of the interested parties, e.g. Council disciplinary procedures and other relevant regulations, relevant legislation and case law, relevant professional standards and nationally recognised standards for conducting investigations, e.g. police guidance regarding gathering evidence. The Council's Internal Audit Service will conduct its investigations in line with professional standards.
- 3.16 All investigations will:

- be conducted in such a manner as to ensure a thorough and fair investigation is carried out which meets relevant standards. The objective of each investigation is to establish the facts concerning the allegation in an equitable and objective manner in order to attempt to confirm or otherwise the veracity of the alleged case of fraud, corruption or financial impropriety.
- be performed by suitably trained and experienced staff.
- be adequately resourced.
- be conducted promptly giving due consideration to the nature, complexity and seriousness of the issue and the need to conduct a fair and thorough investigation.
- as part to its remit, review the systems of control in place where relevant to the investigation to ensure they continue to be effective or are improved.

3.17 At the conclusion of each investigation a written report(s) will be issued by the Head of Internal Audit to the relevant Director or Head of Service in the Council which will outline:

- the findings of the investigation and conclude, where possible, as to the veracity of the allegation.
- appropriate recommendations to ensure improvements are made in respect of the system of control to reduce risks to an acceptable level so that the risk of any repeat activity is significantly reduced.

3.18 All employees are expected to co-operate fully with any investigation. In this respect, the Council's Financial Procedure Rules provide that Internal Auditors should have access to all records and documents of the Council and have authority to require explanations from officers of the City Council in relation to any matters.

3.19 Any enquiries made by external bodies, e.g. media organisations regarding any incidents of fraud, corruption or financial impropriety must be dealt with via the Council's Publicity Officer. Other Council employees who are contacted regarding matters of this nature should make no comment themselves but should direct the enquiry to the Council's Publicity Officer.

#### **4 Investigation Plan – Councillors (See Appendix 1)**

- 4.1 Where fraud, corruption or financial impropriety is suspected to have been committed by a Councillor:
- a) it should immediately be reported to the Head of Internal Audit, who will notify the Director of Financial Services. The Director of Financial Services will then refer the matter to the Chief Executive and the Director of Strategic Services who will notify the Monitoring Officer.
  - b) it is imperative that no action is taken by the person reporting the suspect activity, as this may alert the suspect(s) and/or may result in the loss of evidence. The relevant equipment and records should simply be secured immediately.
- 4.2 Where appropriate, the Monitoring Officer will carry out a prompt initial review of the incident to establish whether there are reasonable grounds to believe there has been a breach of the Members Code of Conduct. Internal Audit may be requested to carry out this work on behalf of the Monitoring Officer. Where Internal Audit carries out the work a report highlighting the findings of this initial review will be submitted by the Head of Internal Audit to the Monitoring Officer for consideration. The Director of Financial Services and other relevant officers will be kept informed.
- 4.3 Where it is deemed by the Monitoring Officer that no further action is needed, the case will be closed. However where it is deemed that there is a prima facie case the Monitoring Officer will promptly refer the matter to the Standards Board for England for investigation.
- 4.4 If the Standards Board for England investigates the matter itself then the Council will have no direct involvement other than to cooperate with the investigation.
- 4.5 Where the Standards Board for England refers the matter to the Council to investigate, the investigation will be carried out in accordance with the provisions of the “Procedure for Local Standards Hearings” adopted by the Council. This procedure complies with the regulations and guidance from the Standards Board. The Monitoring Officer, if deemed appropriate, may carry out the investigation him/herself or delegate the performance of the investigation work to another person either internal or external to the Council.
- 4.6 On completion of the investigation work, the person responsible for the investigation will send a draft report to the Councillor(s) whose activity is being reviewed and to the complainant for comment. Extracts will be provided to those who have given evidence used in the report. A final report, taking into account any relevant comments from the consultation, will then be issued to the Monitoring officer for consideration.

## **5 Investigation Plan – Employees, Consultants & Agency Staff etc (See Appendix 2)**

- 5.1 Where fraudulent, corrupt or financially improper activity is suspected to have been committed by anyone other than a Councillor (e.g. an employee, agency staff etc):
- a) it should immediately be reported to the Head of Internal Audit in accordance with financial regulation 3.56, who will then inform the Director of Financial Services.
  - b) Under financial regulation 3.51 it is the responsibility of the Director of Financial Services “to take all such steps as he or she considers necessary by way of investigation”

### **5.2 Initial action**

- 5.2.1 If you have any suspicions whatsoever that a fraud is taking place or has taken place, there are a few simple guidelines that should be followed
- 5.2.2 Any initial concerns and discussions you may have will be treated sensitively and in complete confidence, in line with the City of Durham Council’s Confidential Reporting Policy and you must not be afraid to raise them. There may be a perfectly good reason for whatever you are concerned about. If this proves to be the case, then no further action will be needed and at least your concern will have been aired.
- 5.2.3 Do not convey your suspicions to anyone, other than to your line manager. If however, the suspect is your line manager then follow the guidelines shown in the City of Durham Councils Confidential Reporting Policy. Alternatively, you may wish to go directly to the Head of Internal Audit, Director of Financial Services, Director of Corporate Services or the Monitoring Officer. Any of these alternatives are acceptable. Whichever path you choose, will depend on the scale of the problem, and who you as an individual feel most comfortable talking to.
- 5.2.4 Deal with the matter promptly, if you feel that your concerns are warranted. Any delay may cause the authority to suffer further financial loss.
- 5.2.5 Retain any evidence you may have and / or make an immediate note of the issues and your concerns. Note all relevant details, such as what was said in telephone or other conversations, the date, time and the names of any parties involved. You may then attempt to secure all records relating to the issue under investigation if this is possible. It is more important, however, that you do not alert the person of your suspicions. Remember that it is important that you do not try and solve the problem yourself.

- 5.2.6 Await further direction from the investigating team. At this stage do not inform the police
- 5.2.7 Fraud and corruption investigations must be well managed and carried out by knowledgeable and experienced staff in order to result in a successful outcome. There are special rules surrounding the gathering of evidence for use in criminal cases. Any attempt to gather evidence by people who are unfamiliar with these rules may adversely affect the outcome of any case. In addition, a poorly directed investigation may prematurely alert the suspect and result in the destruction of evidence. Internal Audit are properly trained in handling fraud and corruption investigations in the proper manner, and are generally the most appropriate people to conduct any further investigative work.
- 5.2.8 Where in accordance with the appropriate disciplinary procedure a member of staff is to be suspended pending investigation the securing of his/her identity badge, diary, desk, filing cabinets and office keys etc. will be necessary. Alarm codes may be also need to be changed where appropriate.

### **5.3 The Fraud Management Process**

- 5.3.1 If in the opinion of the Fraud Response Team the fraud is of a fundamental nature, a decision will then be made on whether to involve the Police from the outset of the investigation. This has serious implications for any disciplinary action that may need to be taken against any individuals involved and is likely to extend the amount of time that the officer will be suspended without prejudice. The Director of Financial Services shall also inform the Leader of the Council, the Chair of the Audit Overview Committee, and the Chief Executive. The Director of Financial Services in consultation with the relevant Head of Service will also inform the relevant Portfolio Holder and keep all relevant parties advised of any progress and eventual outcome of the investigation.
- 5.3.2 Consideration must be given at this stage and at all times during the investigation, to the treatment of the employee, agency staff etc in order to ensure a fair and impartial investigation can be carried out. Where an allegation of financial irregularity involves an employee of the Council, the Director / Head of Service or other senior manager must decide, in accordance with the City Council's Disciplinary Procedures and in consultation with the Head of Human Resources if it is appropriate to suspend (without prejudice) or redeploy the employee concerned. Criteria used in making that decision would involve:
- a) the nature of the suspected irregularity. If an allegation which, if proven, would be considered an act of gross misconduct then the employee will always be suspended.
  - b) the possible effect on the investigation if the employee were to remain in post, e.g. employees will be suspended or redeployed in all situations where the employee, by remaining at work, would be in a position to

tamper with records or other evidence or where the presence of the employee would impede any investigation of the allegation.

- 5.3.3 If an employee is suspended or redeployed the employee must not be allowed any opportunity to interfere with any records, information or other evidence which relate to the allegation to be investigated.

For individuals other than employees and Councillors, appropriate action should be taken to protect the integrity of the investigation.

If appropriate, immediate action will be taken to secure any relevant evidence.

- 5.3.4 Once an initial investigation has been authorised, the auditor at this early stage, must be able to make a reasoned judgement regarding the nature and extent of the alleged fraud. Some preliminary work is therefore essential, to determine the available evidence, and decide whether or not the available evidence gives sufficient concerns for further investigation. Internal Audit will carry out a prompt initial review of the incident to establish whether there are reasonable grounds to conduct a full investigation, i.e. is there prima facie evidence available to warrant further action.

- 5.3.5 As soon as the initial detection stage of the investigation has been completed, and interim written confidential report will be made by the Head of Internal Audit to the Fraud Response Team. The report will set out:

- The auditors findings to date
- The interim conclusions drawn from these findings
- Will seek approval (where necessary) to continue the investigation

- 5.3.6 Depending upon the seriousness of the fraud, further interim reports may be necessary to keep the Fraud Response Team fully apprised of the developing investigation, in order that they may take any necessary action including the possible suspension of the officer(s) concerned.

- 5.3.7 Where it is deemed that no further action is needed then the case will be closed. However where it is deemed, that the matter is worthy of further investigation then Internal audit will decide whether it wishes to investigate the matter or refer it back to the Service for investigation.

## **5.4 Undertaking a Special Investigation**

- 5.4.1 The objective of any special investigation is to prove or disprove the initial suspicion or allegation of fraud or irregularity by obtaining and thoroughly

evaluating all material evidence so as to establish the facts. If the suspicions appear to be well founded then you must be able to:

- identify all those involved
- support the findings of the investigation by the production of all relevant evidence.
- Present the evidence in an appropriate form for any subsequent disciplinary or criminal proceedings
- Consider what may be done to recover any loss incurred; and
- Identify any system weakness and look at how internal controls could be improved to prevent a recurrence.

5.4.2 Internal audit are properly trained in handling fraud and corruption investigations in the proper manner, and are generally the most appropriate people to conduct any further investigative work.

5.4.3 It is essential that audit staff adopt a systematic approach to all investigative work. The approach taken, however, must be sufficiently flexible to ensure that the investigation is able to evolve to respond to a situation that may arise in larger investigations as more evidence comes to light.

## **5.5 Control of Special Investigations**

5.5.1 There is a need to control all investigations into suspected fraud, both to demonstrate that auditors are fully accountable for their activities in this very sensitive area, and to ensure that authorisation is obtained from the highest levels of management within Internal Audit before any investigative work starts.

5.5.2 All special investigations will be authorised, and their progress regularly reviewed by the Head of Internal Audit, using a special investigation assignment sheet to ensure compliance with the Regulation of Investigatory Powers Act 2000. All such investigations will be assigned an audit control number against which all time spent by any member of the section when working on the investigation will be recorded.

## **5.6 Confidentiality**

5.6.1 There is a demonstrable need to maintain secrecy and confidentiality in this extremely sensitive area of audit work, and all staff engaged in special



investigations need to ensure that the strictest standards are adhered to at all times in this respect.

The reasons for this are that:

- allegations may turn out to be unfounded, and if secrecy and confidentiality have been maintained, this will prevent considerable embarrassment to both the accused officer and the authority
- fraud investigations are of immediate interest to employees, the general public and the media, and careless talk can generate rumours which quickly obtain wide circulation
- where fraud has occurred, breaches in confidentiality could alert the suspect and result in them having the opportunity to cover their tracks or destroy material evidence.

## **5.7 Record of progress**

- 5.7.1 It is essential that for all investigations, a chronological log is maintained of all events as the investigation proceeds. This will be the responsibility of the Head of Internal Audit.
- 5.7.2 The use of a diary, particularly for larger or more complex investigations will provide a history in summary form of the investigation as it proceeds.
- 5.7.3 All meetings, interviews, removal, taking possession of evidence, telephone conversations etc must be recorded. A more comprehensive note of any such event will be maintained in the form of a detailed working paper which will be written up during or as soon as possible after the relevant event and signed, dated and timed by the auditor responsible.

## **5.8 Obtaining and safeguarding evidence**

- 5.8.1 The potential problems that may result from the actions of suspects who are able to gain access to evidence of their fraudulent activities are readily apparent. The suspect may destroy, corrupt, or amend evidence and as a result frustrate the whole investigative process. It is therefore essential that all potential evidence is identified as quickly as possible by the auditor, and is obtained and secured at the earliest opportunity.
- 5.8.2 If an auditors suspicions are aroused during a routine audit review, he or she will, contact the Head of Internal Audit and seek advice on how to proceed. Where it is not possible to do so without alerting the potential suspect(s), the auditor will gather together as much evidence as possible under the pretext of the normal audit review and will attempt to secure as much original documentation as is



practicable so as to safeguard against any future attempts to destroy incriminating evidence by the culprit

- 5.8.3 In situations where fraud is suspected, auditors must move swiftly and unobtrusively to obtain as much original documentation associated with the area / system(s) concerned as possible. Such information will then be reviewed by the Head of Internal Audit in consultation with the Director of Financial Services and referred to the Fraud Response Team

### **Prime documents and certified copies**

- 5.8.4 Prime documents are the original documents (not carbon copies, photocopies or copies taken from microfiche storage), and are always considered to provide the strongest evidence because of their provenance. It is essential, therefore, that:
- where possible, auditors should always attempt to obtain prime documents rather than copies.
  - Such documents should be maintained in their form at the time they are taken into the possession of the auditor - under no circumstances should any original document ever be written on, annotated, or marked in any way by audit staff. Where it is necessary to use the document for cross checking to others, then a photocopy will be taken and used as a working paper to record the testing undertaken and any results, whilst the original document is maintained in its original form.
  - All prime documents will be placed in clear plastic wallets to protect both their general condition and the integrity of any forensic evidence they may provide (this is particularly important in respect of paid cheques where the payee denies having received the cheque). Where any such documents are subsequently required for use at interviews, they will be given a unique identifying reference attached by label to the plastic wallet.

- 5.8.5 In some circumstances it may not be possible to obtain prime documents, either because the original document is not normally retained within the authority, (e.g. payslips, etc provided as evidence of income in the case of applications for housing benefit), or where an investigation extends back to cover a long period of time and the authority has reduced some of its supporting documents to microfiche storage.

In these cases, it is essential that the person who was originally responsible for taking the copies certifies any copy documents used as true copies of the original.

### **Computer-Held Data**

- 5.8.6 Information held on a computer system, including documents copied and stored through the use of data imaging software may provide evidence, either of the

situation in the records at a specific point in time, or that a fraud has been committed. Such evidence may therefore form part of the investigation and may be required for any subsequent disciplinary or criminal proceedings.

- 5.8.7 If such evidence is required, it is essential that the auditor obtains (and treats as a prime document) a printout of the relevant information, including, as part of the printed data, the date and time of its production.
- 5.8.8 At this stage, however, such evidence would still be classed as hearsay and, as such, enjoy only limited acceptability in any future proceedings. If this difficulty is to be overcome, it is essential that the printout is endorsed, in line with the requirements of Section 69 of the Police and Criminal Evidence Act 1984 (see below), by a person who was, at the time of the printout's production, responsible for the operation of the computer installation from which it was generated.

**“Certification in respect of Computer Generated Documentation, as required by the Police & Criminal Evidence Act (Sect. 69).”**

**I certify that, in respect of this document (Ref No ), there are no reasonable grounds for believing that the information is inaccurate because of improper use of the computer by which it was generated, and, that at all material times the computer was operating properly, or, if not, that any respect in which it was out of operation was not such as to affect the production of the document or the accuracy of its contents.”**

**5.9 Consideration of the Suspension of Suspect(s)**

- 5.9.1 In some investigations situations may occur where it is not possible to determine the full extent of any evidence that exists, but where the evidence that has been disclosed is sufficient to clearly identify the suspect(s). In order to protect the integrity of any unsecured evidence, and to prevent any influence the suspect(s) might bring to bear on associates, it may be necessary for the auditor to consider recommending to the Head of Service, or the Chief Executive, the suspension from duty (without prejudice) of the individual(s) concerned.
- 5.9.2 Such recommendations will only be made in the form of the interim audit report, cleared by the Head of Internal Audit in consultation with the Director of Financial Services. Any such action to suspend by the authority will always be taken as a neutral act.

**5.10 The Auditor's Duties when an Officer is Suspended from Duty**

- 5.10.1 The following matters must be dealt with, as appropriate, immediately after the issue of a suspension notice. In accordance with the Council's disciplinary and grievance procedures suspensions will normally be carried out by third tier

officers or above, however, circumstances may dictate that lower level officers may need to take this action depending upon the circumstances.

- 5.10.2 During a period of suspension pending disciplinary action the employee shall receive contractual earnings including average bonus where applicable. No further action will then be taken, in normal circumstances, until the fraud investigation has been concluded.
- 5.10.3 Whilst audit staff will, in normal circumstances, only be personally involved in point (a) and (b) below, they must ensure that management is aware of and takes the necessary action required under the remaining elements of the process.
- a) The suspended employee should be allowed to return to the office, in the presence of the auditor in charge of the investigation, and should be allowed to remove any personal possessions.
  - b) The auditor should ensure that he/she is fully aware of the nature of all items removed, and that nothing which is material to the investigation, such as diaries, are taken from the premises.
  - c) The suspended employee should then be required to hand over to an officer of the authority any keys, identity cards and/or security passes that they hold relative to their employment with the authority.
  - d) The above aspect of the suspension process is particularly relevant where the suspended employee is employed in the organisation's computer installation, or has access to any key computer systems. In this respect it is essential to ensure that access to any such systems is immediately revoked, and all appropriate passwords changed.
  - e) When management are satisfied that they have secured possession of all relevant items that were issued to the suspended employee, then the employee should be escorted from the premises, and all other employees who control access to the building/complex/employee's office, e.g. commissioners, reception staff, caretakers and office security staff, should be informed of the employee's suspension, and instructed not to allow the person access to the premises without the specific authority of a named, authorising officer.

## **5.11 Informal consultation with the Police**

- 5.11.1 In most cases the next stage of the investigation will be to interview any persons who can contribute to the auditor's overall knowledge or provide further evidence. Before these interviews are conducted it is important to consider

whether or when it would be appropriate to involve the Police in any investigation.

- 5.11.2 Where an auditor realises that the outcome of an investigation will be to confirm that fraud has taken place, some informal contact with the local Police may be necessary to discuss the situation to date and ensure that collective skills may be used to best effect
- 5.11.3 One of the most difficult problems facing an auditor who is conducting a fraud investigation is deciding at what stage a formal referral of the case should be made to the Police. Guidance on this issue is contained within the Council's referral policy, (see Appendix A)

## **5.12 Interviewing**

- 5.12.1 Auditors conducting investigative work will conduct two basic types of interview:
- 5.12.2 **Fact-finding interviews.** These interviews are necessary to confirm the auditor's understanding of any evidence obtained, clarify operating practices, obtain information to supplement the documents available, etc and will be conducted with staff of the authority, and, where they are willing to participate, with third parties.
- 5.12.3 Particular care should be taken in respect of such interviews when the third party is a client of the authority who may be considered vulnerable to ensure that they are not placed under any undue stress, are judged capable to deal with the interview by an appropriate care professional, and are accompanied by a person who is known to them and so can provide them with some reassurance.

**NB no such interviews should be arranged without the prior consent of the Head of Internal Audit**

**Interviews with potential suspects: best practice in the conduct of formal audit interviews.** The CIPFA publication *The Investigation of Fraud in the Public Sector* contains best practice guidance on the conduct of internal audit interviews. (See Appendix B).

NB before any formal interviews with potential suspect(s) are arranged, clearance of proposed questions, staffing and location/timing must be obtained from the Head of Internal Audit..

### 5.13 Location

- 5.13.1 Any room/venue to be used for an interview must be well heated/ventilated, provide adequate, comfortable seating, and allow for any necessary comfort breaks and the provision of tea/coffee, etc.
- 5.13.2 The normal venue will be the Internal Audit offices, where senior staff are available to provide assistance if any difficulties arise. Where this is not practicable, a suitable outside location may be used but this should not, in any circumstances, be the interviewee's normal place of work.

### 5.14 Timing

- 5.14.1 Formal audit interviews will normally be carried out in the later stages of the investigation when all necessary/available evidence has been assimilated and evaluated.
- 5.14.2 It is advisable to arrange such interviews as early in the day as possible as the interview may continue for longer than anticipated and, if possible, it is better to complete the process within a single day.
- 5.14.3 Where an investigation shows evidence of potential collusion, or where there may be multiple potential suspects/personal relationships that may compromise certain interviewees, it is essential that interviews are scheduled to best effect. This may in some cases involve simultaneous interviews being undertaken at separate locations by several teams of auditors. In all such circumstances, proposed scheduling arrangements must be discussed with and approved by the Head of Internal Audit.

### 5.15 Notification of Interviewee

- 5.15.1 Interviewee(s) should be formally notified in advance that they are required to attend for a formal internal audit interview, with details of the proposed date, time and venue. They should also be informed at that time that they are entitled to be accompanied, if they so wish, by a friend of their own choice, but that the friend must not be involved in the investigation. This notification may initially be by telephone, but must be confirmed in writing to avoid any later misunderstanding regarding what has been agreed. Whilst interviewees are not allowed to unduly delay the progress of the investigation, it is important that they are demonstrably given every opportunity to be accompanied if they so wish.

## 5.16 Conduct of the Interview

5.16.1 All formal audit interviews will require the use of the standard audit interview record front sheet. (See Appendix C)

5.16.2 This details the auditor's statutory rights to conduct the interview, the methodology to be used and the role of any friend accompanying the interviewee.

- Staff conducting the interview should introduce themselves at the start of the process and ensure that they record the details of any friend accompanying the interviewee.
- The lead auditor should also read out the contents of the audit interview record sheet and ensure that the interviewee understands both the auditor's right to carry out the interview and the procedure the interview will follow.
- To ensure that the conduct of the interview is not called into question at a later date, it is essential that no action that might be construed as putting the interviewee under pressure is taken. This may be as simple as not allowing a smoker to smoke, or failure to offer comfort/refreshment breaks at regular intervals. (NB it is therefore important that offers of these breaks are recorded in the interview notes, together with the time they were made, regardless of whether or not they were accepted.)
- All interviews must include a final question: "Are you satisfied with the way in which this interview has been conducted?" This should serve to minimise the likelihood of any subsequent complaint of unfair treatment.
- At the end of the questioning, interviewees should be asked to read the notes that have been taken, and allowed to make any amendments that they consider appropriate. Having done so, they should be asked to sign each page of the notes to signify their acceptance that they constitute a true record of the interview. Should an interviewee refuse to sign the notes, then their reason(s) for doing so should be recorded by the auditors on the final page of the interview record and all sheets of notes should be signed by the two audit staff who have conducted the interview, in the presence of the interviewee.
- Interviewees may be provided with a copy of their interview notes if they request such a copy.

5.16.3 In general, interviews with potential suspects should be conducted towards the end of the investigation when the auditor has assimilated the available evidence. The examination of records and interviews with third parties and others has established, as far as possible, the veracity of the facts of the case. If the interview is carried out at an early stage where the auditor is working largely on personal suspicions then the interview becomes a fact finding interview with the possibility

of a further interview being necessary. This could, however, enable the suspect to gain considerable insight into areas being covered by the investigation and be given an early opportunity to frustrate the investigation as previously mentioned.

## 5.17 Cautioning

5.17.1 The Police and Criminal Evidence Act 1984 requires that where there are grounds to suspect that an individual may have committed an offence, that individual must be cautioned before being questioned on that offence. This requirement only applies in respect of the admissibility of any statement taken as evidence in criminal proceedings.

5.17.2 Cautioning will not be undertaken unless an interviewee confesses to fraudulent activity during an audit interview. In such cases, a caution should be administered as follows:

**“I have reason to believe that you may have committed a criminal offence. You do not have to say anything, but it may harm your defence if you do not mention when questioned something which you later rely on in court. Anything you do say may be given in evidence.”**

5.17.3 The circumstances in which a caution has to be issued would normally be quite rare, and any potential cases of a significant nature will be dealt with by the Head of Internal Audit or the Principal Auditor who will conduct the audit interview.

5.17.4 Staff should consider carefully, if they find themselves about to caution an interviewee, whether the caution is appropriate.

5.17.5 Having discussed the situation informally as previously suggested with the local Police, the auditor should not be in a position at the start of any suspect interview where it would be required to issue a caution at the outset. If the suspicion were strong enough for that to be necessary the case should normally be referred to the Police.

5.17.6 Where a caution is issued, it must be recorded, together with the time it was issued in the contemporaneous notes of the interview, and must be repeated and recorded after any subsequent breaks in the interview.

## **5.18 Reporting the outcome of Investigative Audits**

5.18.1 Audit reports on investigations undertaken will be produced as soon as possible after the investigation is completed, this is in order to stop the fraud (if on going), to enable remedial action to be taken as quickly as possible and to either identify the culprit or exonerate the innocent suspect without delay.

5.18.2 The report will contain all relevant information and evidence, both within the content of the report and, where necessary, as appendices to the report, to support the case, and enable management to determine the appropriate action to be taken.

5.18.3 The report format will not always be the same as each fraud is unique. In all cases , however, it will be appropriate to relate the facts on a basis of time which explains

- How the audit investigation arose
- Who the suspect (s) are
- Their position in the Council, including their responsibilities
- How the investigation was undertaken
- The facts and evidence which were identified and produced

5.18.4 The report will conclude with a summary of the findings of the investigation, and the auditor's recommendations as to any immediate action by management relative to any system weaknesses disclosed or other areas of possible investigation. The report may also form the basis of either disciplinary or criminal charges and so should be sufficiently detailed and comprehensive for these purposes.

5.18.5 The contents of such reports must be thoroughly checked, including validation back to prime documents, by an independent member of the Internal Audit section to ensure accuracy. Reports must be cleared by the Head of Internal Audit in consultation with the Director of Financial Services before release.

## **5.19 Confidentiality**

5.19.1 The report will be produced under confidential cover, and a distribution list agreed with the Director of Financial Services. Audit reports on fraud investigations should never be given to the culprit or their representative by the auditor.

5.19.2 Draft reports will be destroyed by shredding.

5.19.3 Where reports are produced on a PC or word processor, the file must be protected by password, similarly where the report is saved to removable storage media(e.g. floppy disk), the security of the media is of paramount importance.



## **5.20 Procedure for Dealing with Audit Reports**

5.20.1 Audit reports on investigations deal with matters arising from audit work that involve serious irregularities/fraud, serious inadequacies/weaknesses in systems or instances of significant non-compliance with the authority's policies. They should not be confused with other, more general reporting methods, which are used by the Internal Audit Section for dealing with most audit work.

## **5.21 Post Investigation**

5.21.1 As a result of investigations carried out into fraudulent activities the auditor will be called upon to provide evidence either for disciplinary or criminal proceedings and subsequently to attend formal hearings to give that evidence in person as the investigator of the fraud.

## **5.22 External Auditor**

5.22.1 The external auditor must be made aware of potential fraud investigations as soon as possible so as to prevent any problems which might arise from coincident activity in the same area as that under investigation.

5.22.2 The external auditor may well need to be involved in any subsequent action as they can:

- Apply to the court for a declaration that any aspects disclosed by the audit render items of the authority's accounts contrary to law
- To seek orders for repayment of such items of account from the responsible individual

5.22.3 The external auditor may also under section 20 of the Local Government Act 1982 certify a sum to be due from any individual who has failed to bring any item into account or has caused a loss or deficiency to the authority by an act of wilful misconduct.

5.22.4 The external auditor will also wish to satisfy himself that the effect of the fraud is not material to the overall position of the Council.

## **5.23 Audit Overview committee**

5.23.1 The Director of Financial Services and the Head of Internal Audit will report verbally in private on a quarterly basis regarding any fraud investigations undertaken.

## **5.24 System implications**

- 5.24.1 When the investigation has been completed and all aspects have been explored and the extent of the fraud determined, it is necessary for the Internal Audit section to determine whether there are any system implications which have been disclosed by the fraud.
- 5.24.2 Where it has subsequently been ascertained that it is possible and desirable to strengthen the system in operation it is then necessary to determine what changes need to be made and controls imposed to bring the system up to the required standard.
- 5.24.3 The auditors findings and recommendations in this area must be promptly notified to the relevant Head of Service and confirmation obtained that the recommended improvements have been implemented.
- 5.24.4 The auditor must then determine whether any other departments within the Council not examined as part of the investigation operate systems which have the same areas of weakness as disclosed. In such cases management must be notified of the potential risks and the changes necessary to bring the system in operation to the required standard
- 5.24.5 Notes must be placed on all relevant audit files of the need to look back at the operation of the system before the weakness was detected to ensure that similar fraudulent exploitation of such weaknesses has not taken place.

## **5.26 Audit Plan**

- 5.26.1 The Head of Internal Audit must review the short term audit plan to ensure that any systems found to be at risk are audited as soon as possible. It may also be necessary to review future levels of audit resources devoted to this area resulting from any reassessment of risk arising from the fraud investigation.

## **6.0 Roles and Responsibilities**

### **6.1 Executive Director**

- 6.1.1 The Executive Director will be responsible for:
- The Consideration of initial concerns in consultation with relevant Directors/Heads of Service, the Director of Financial Services, the Director of Strategic Services, the Monitoring officer, the Director of Corporate Services and the Head of Internal Audit
  - The authorisation of any formal investigation.

## **6.2 Director of Financial Services**

6.2.1 The Director of Financial Services will be responsible for:

- developing and maintaining an anti fraud and anti corruption policy
- maintaining adequate and effective internal control arrangements
- ensuring that all suspected irregularities are reported to the Head of Internal Audit, the Chief Executive, the Leader and the Chair of the Audit Overview Committee.
- taking all such steps as he or she considers necessary by way of investigation
- ensuring that where sufficient evidence exists to believe that a criminal offence may have been committed, the Police are called in to determine with the Crown Prosecution Service, whether any prosecution will take place
- notifying the Chief Executive and External Auditor of any significant loss.

6.2.2 The Director of Financial Services will inform the Head of Internal Audit at the first opportunity. While the Director of Financial Services will retain overall responsibility, responsibility for leading any investigation will be delegated to the Head of Internal Audit.

## **6.3 Head of Internal Audit**

6.3.1 The Head of Internal Audit will:

- Initiate a diary of events to record the progress of the investigation throughout.
- Agree the objectives, scope, and timescale of the investigation, and the resources required with the Director of Financial Services at the outset of the investigation
- Ensure that proper records of each investigation are kept from the outset, including accurate notes of when, where, and from whom evidence was obtained and by whom.

## **6.4 Director of Corporate Services**

6.4.1 Where a member of staff is to be interviewed or disciplined the Director of Financial Services and / or the Head of Internal Audit will consult with, and take advice from, the Director of Corporate Services

6.4.2 The Director of Corporate Services will advise those involved in the investigation in matters of employment law, Council policy, and other procedural matters (such as disciplinary or complaints procedures) as necessary.

## **6.5 Directors/Heads of Service**

### **6.5.1 Directors/Heads of Service must:**

- ensure that all suspected irregularities are reported to the Head of Internal Audit immediately
- instigate the Authority's disciplinary procedures where the outcome of an audit investigation indicates improper behaviour or if required during the course of an audit or Police investigation
- ensure that where financial impropriety is discovered, the Director of Financial Services is informed immediately.

## **7.0 Potential Criminal Acts (appropriate to Councillors and employees)**

**7.1** If, at any stage during an investigation conducted by the Council itself it is suspected or becomes apparent, based on available evidence, that acts of a criminal nature may have occurred then the Police will be contacted promptly by the Head of Internal Audit. The matter will be discussed informally with the Police in order to:

- a) get advice about how the investigation, or part of it, may be handled.
- b) allow the Police the opportunity to consider the evidence gathered and to consider if they want to conduct their own criminal investigation or rely upon the work of the Council to complete its own investigation.
- c) request Police support and expertise to support some part of the investigation.

**7.2** Where, during discussions with the Police, it is considered that the most appropriate way forward is to refer the matter formally to the Police to start a criminal investigation, this will only be made after due consideration by the Fraud Response Team. However, where there is disagreement with regard to this course of action the Director of Financial Services as the responsible officer will make the final decision.

**7.3** Where the Police begin a criminal investigation and take the lead on investigating the matter, the Council, e.g. Internal Audit Services will continue its internal investigation work in parallel with the criminal investigation and will liaise with the Police to explore the possibility of using the Police findings/evidence to aid in completing the Council's internal investigation. The Council's internal investigation, and any subsequent sanction, e.g. disciplinary action, will not be delayed until the completion of the criminal investigation work and any subsequent criminal prosecution, unless there are exceptional circumstances.

There are two reasons for this:

- a) The standards of proof required in disciplinary and criminal cases are significantly different. In a criminal case the evidence must prove guilt beyond any reasonable doubt. In employment law the employer is required to reach a reasonable decision on the basis of the facts available at the time, equity, the substantial merits of the case, and that such a decision fell within a range of responses that any reasonable employer may make.
- b) The Council is required to carry out its own investigation in relation to disciplinary issues and is not entitled to rely on a police investigation or a verdict from the court.

- 7.4 In addition criminal cases can take a protracted period to come to trial. It is not unusual for complex cases to take in excess of 12 months to come to court. Even if the above factors did not apply, it would not be desirable to link disciplinary issues to the outcome of court cases in situations where employees might remain suspended for a very long period of time.

## **8.0 Actions Arising From Investigations**

- 8.1 The Council Anti Fraud and Corruption Policy states that it will not tolerate dishonesty on the part of any Councillors, employees or any person or organisations involved in any way with the delivery of services of the Council. Where fraud, corruption or financial impropriety is detected the City Council will rigorously pursue appropriate action against the persons concerned including legal and/or disciplinary action, and wherever possible and deemed appropriate, will take action to recover losses suffered.

### Councillors

- 8.2 The appropriate action to be taken after the completion of an investigation into an allegation of fraud, corruption or financial impropriety is governed by the provisions of the Council's "Local Investigation of Members Procedure".
- 8.3 Where the investigation concludes that there has not been a failure to comply with the Members Code of Conduct, the investigation report must be considered by the Council's Standards Committee to decide whether to accept the conclusions of the report and take no further action in respect of the Councillor(s) concerned, or it may resolve that the Councillor's conduct is still a matter to be considered at a formal hearing.
- 8.4 Where the investigation report concludes the Councillor has breached the Code of Conduct a formal hearing must take place to consider their conduct and to decide on the appropriate sanction. Where the investigation report identifies conduct of such seriousness that the Council's Standards Committee believes that its maximum sanction would be inadequate, the matter will be referred back to the

Standards Board for England to arrange a hearing and to decide on an appropriate sanction.

Employees, Consultants & Agency Staff, Suppliers etc

- 8.5 Depending on the outcome of the investigation carried out by Internal Audit (or the Service if approved), the relevant Director / Head of Service or appropriate senior managers of the relevant Service will decide what action should be taken, if any, in respect of the employee, consultant, etc concerned. The decision will be made in consultation with the Director of Corporate Services, the relevant Director/Head of Service and the Director of Financial Services.
- 8.6 Where the investigation finds the allegation of fraud, corruption or financial impropriety to be unfounded no further action will be taken.
- 8.7 Where the investigation report confirms the veracity of the allegation of fraud, corruption or financial impropriety by a Council employee it may be necessary to invoke the relevant provisions of the Council's Disciplinary Procedures, which will consider the conduct of the employee and the associated evidence and decide on an appropriate action. The disciplinary process will largely be informed by the investigation report. Disciplinary offences involving fraud, corruption or financial impropriety will, under most circumstances, be regarded as gross misconduct. The action to be taken should not in normal circumstances be dependent upon the outcome of any criminal investigation.
- 8.8 Where the investigation report confirms the veracity of the allegation of fraud, corruption or financial impropriety but the persons involved are neither Councillors nor employees, e.g. agency staff, consultants, suppliers etc the Director of Corporate Services in consultation with the relevant Director/Head of Service, the Director of Financial Services and the Monitoring Officer will decide on the appropriate sanction to best protect the interests of the Council, e.g. this could include immediate cessation of any contract and, depending on the circumstances, the commitment not to re employ the person or organisation in the future.
- 8.9 Where it is deemed appropriate the Council will seek to recover any financial loss suffered from the individuals or organisations concerned. (This may or may not be dependent on the outcome of any criminal prosecution. The Director of Financial Services in conjunction with the Monitoring Officer will make the decision.

Criminal Acts (appropriate to Councillors and employees)

- 8.10 If, as the result of a criminal investigation into an allegation of fraud, corruption or financial impropriety, the evidence supports prosecution the police will bring the appropriate charges against the appropriate persons. Ultimately, the Crown Prosecution Service (CPS) will decide whether or not the case should be prosecuted based on the available evidence.
- 8.11 If the prosecution proceeds the case will be dealt with by the Courts in the usual way. If the police decide that it would not be appropriate to bring charges against any individuals, or if the CPS subsequently decides not to proceed with the case, the issue will still remain as an internal issue to be dealt with within the Council if the internal process has not yet been completed.