

## **Resources**

### **Internal Audit, Risk and Fraud**

# **COUNTER FRAUD AND CORRUPTION STRATEGY**

*Altogether better*



# CONTENTS

- 1 Foreword
- 2 Introduction
- 3 Corporate Framework & Culture
- 4 Legal Definitions
- 5 Prevention
- 6 Deterrence
- 7 Detection and Investigation
- 8 Awareness
- 9 Conclusion

# 1. Foreword

Durham County Council is served by dedicated and hardworking officers who consistently demonstrate high levels of integrity and honesty. Public servants in this country are held in the highest esteem around the world for their personal and professional propriety.

However, we take our responsibility as the guardians of public money very seriously, that is why it is important that we have in place a clear and comprehensive Counter Fraud and Corruption Strategy.

Durham County Council is the biggest organisation in the County and one of the biggest local authorities in the country. We provide vital services to 513,000 residents, we have a gross budget of over £1 billion a year and employ almost 18,000 people. We pay pensions to a further 16,000 retired employees and we manage property, investments and other assets worth billions of pounds.

Fraud and corruption cheats the local tax payer and undermines the aims of our Council to achieve an ‘Altogether Better Durham’ by providing value for money services in an open, honest and accountable way.

We are determined therefore that we will protect ourselves from fraud and corruption from within and outside the organisation. We advocate a zero tolerance approach and will seek to prevent fraud and corruption, including bribery, in all areas of our activities. Where any instances are discovered, the Council will take all action as is necessary to hold perpetrators to account and reduce losses to an absolute minimum.

Our aim is to make absolutely clear to all that we will not tolerate fraud or corruption. We expect anyone with a concern, to report the matter immediately so we can investigate. We will make sure that these reports are dealt with promptly and where a report is substantiated we will take effective and speedy action. In all cases, we will provide a clear explanation to anybody who raises concerns.

We have designed this strategy to fight fraud and corruption by encouraging prevention whilst also promoting detection.

All councillors and employees have a responsibility for promoting a culture of good governance by ensuring that effective measures are in place to prevent fraud, corruption and other irregularities and by promptly identifying and reporting potential instances for investigation.

Simon Henig  
Leader of the Council

Terry Collins  
Chief Executive

## 2. INTRODUCTION

2.1 Durham County Council recognises that it has a responsibility to protect the public purse. In order to meet these responsibilities the Council is committed to an effective Counter Fraud and Corruption Strategy designed to:

- Promote the prevention of fraud, corruption and bribery
- Help people detect fraud, corruption and bribery
- Ensure the effective investigation in all cases where suspected fraud or corruption or bribery has occurred, and
- Explain what we will do if we identify cases of fraud, corruption and bribery.

2.2 This strategy outlines Durham County Council's approach, as well as defining the roles and responsibilities for dealing with the threat of fraud, corruption and bribery both internally and externally. The strategy applies to:

- councillors
- employees
- agency staff
- contractors
- consultants
- suppliers
- service users
- employees and committee members of organisations funded by Durham County Council
- employees and principals of partner organisations

In addition to the above, Durham County Council also expects its residents to adhere to the principles of the strategy and to be honest in their dealings with the Council.

2.3 This strategy sets out the commitments of the Council to tackling fraud, corruption and bribery. It also makes clear to all concerned the appropriate and decisive action that will be taken against those committing or attempting to commit, fraudulent and or corrupt acts against Durham County Council and any cases will be thoroughly investigated and dealt with.

2.4 Durham County Council has set about to ensure that it creates a zero tolerance culture in order for it to be effective in its approach to dealing with fraud, corruption and bribery. There is commitment to ensure that opportunities for fraud, corruption and bribery are reduced to the lowest possible level by:

- Raising awareness of the impact of fraud both on the organisation and the individual
- Preventing, detecting, investigating and deterring fraud
- Applying sanctions against people who commit fraud
- Seeking redress for frauds, overpayments and losses

### **3. CORPORATE FRAMEWORK AND CULTURE**

3.1 Durham County Council has a range of interrelated policies and procedures that provide a corporate framework to help counter any fraudulent activity. These have been formulated in line with the appropriate legislative requirements and professional best practice and include:

- Code of Conduct for members
- Code of Conduct for employees
- Confidential Reporting Code
- Corporate Complaints Policy
- Data Protection Policy
- Disciplinary Policy
- Effective Recruitment and selection procedures
- Financial Regulations & Contract Procedural Rules
- Fraud Response Plan
- Money Laundering Policy
- Personal Information Security Policy
- Regulation of Investigatory Powers Act Corporate Guidance
- Sanction Policy
- Sound internal controls, including specific service area requirements

3.2 Durham County Council believes the best defence against fraud, corruption and bribery is to create a strong anti-fraud culture within the organisation and that a culture of honest and openness is a key element in tackling fraud. The codes of conduct for members and employees are based upon the Nolan principles of Standards in Public Life. In cases where members or employees fail to adhere to these codes appropriate action will be taken against them.

3.3 The seven Nolan principles of Standards in Public Life are:

- Selflessness – you must act solely in terms of the public interest and not in order to gain financial or other material benefits for yourself, family, or friends
- Integrity – you should not place yourself under any financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties
- Objectivity – you must make choices on merit when making decisions on appointments, contracts, or recommending rewards and benefits for individuals
- Accountability – you are accountable for your decisions and actions to the public and you must submit yourself to whatever scrutiny is appropriate
- Openness – you should be as open as possible about all decisions and actions that you take. You should give reasons for your decisions and restrict information only when the wider public interest clearly demands
- Honesty – you have a duty to declare any private interests relating to your work and you need to take steps to resolve any conflicts arising in the way that protects the public interest

- Leadership – you should promote and support these principles by leadership and example

3.4 Durham County Council also has an effective Internal Audit Service and Corporate Fraud Team that assists the corporate framework to help counter any fraudulent activity.

## **4. LEGAL DEFINITIONS**

4.1 The Fraud Act 2006 describes fraud as the intention to make gain or cause loss under three main headings:

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

There are further subheadings of fraud described including possession of articles for use in fraud, making or supplying articles for use in frauds, participating in fraudulent business and or obtaining services dishonestly.

4.2 Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward, or showing any favour or disfavour which may influence any person to act improperly.

4.3 The Bribery Act 2010 came into force on 1 July 2011. Bribery is defined in the Act “as giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward a person for having already done so, in order to gain personal, commercial, regulatory or contractual advantage”. It is the most common form of corruption.

4.4 Money Laundering is the term used for a number of offences involving concealing the proceeds of crime or terrorist funds, so that they appear they have come from a legitimate source. Relevant legislation includes the Proceeds of Crime Act 2002, Money Laundering Regulations 2007, the Terrorism Acts of 2000 and 2006, and the Serious Organised Crime and Police Act 2005. Money Laundering involves one or more of three principal offences: concealing, arranging and acquisition/ use/ possession.

## **5. PREVENTION**

### **Employees**

5.1 Durham County Council recognises that its employees are often the first line of defence in preventing fraud.

5.2 Employees must work within:

- The Employee Code of Conduct for Durham County Council (which is made available to all employees);

- The Council's regulatory framework including Financial Regulations and Contract Procurement Rules; and
  - Relevant codes of conduct including the standards of any appropriate professional organisations and associations.
  - Personal Information Security Policy
- 5.3 Employees must operate within Section 117 of the Local Government Act 1972, regarding the disclosure of the financial interests in contracts relating to the Council, or the non-acceptance of any fees, gifts, hospitality or any other rewards, other than proper remuneration. The Bribery Act 2010 makes it an offence to request, agree to receive, or accept a bribe. It is also an offence to offer, promise or give a bribe.
- 5.4 The Council recognises that training and the responsiveness of employees is important to the success of the Counter Fraud and Corruption Strategy. Employees should therefore be alert to the possibility of fraud and report any concerns. Durham County Council has a Confidential Reporting Code (Whistleblowing policy) in place to assist employees in reporting their concerns about fraud or any other issues without fear of harassment or victimisation.
- 5.5 The Council has in place disciplinary policies and procedures for all employees. Those found to have breached the Code of Conduct will be dealt with in accordance with these policies and procedures. Where criminal activity is suspected or found, the matter will be referred to the police for investigation and possible prosecution, in accordance with the Fraud Response Plan. In addition, in relevant cases, recompense will be sought from those who are found to have carried out fraudulent acts.
- 5.6 Durham County Council's policies and procedures support compliance with the Bribery Act. Codes of conduct set out the acceptable conduct for both members and employees, with regard to personal interests and the receiving and giving of gifts and hospitality. The codes of conduct, a strong ethical framework, clear procurement rules, transparency and the scrutiny of decision making ensure that the Council's employees and members comply with anti-bribery legislation. Non-compliance by an employee or member may be perceived as bringing the Council into disrepute or using their office for personal gain. It may result in disciplinary action being taken.
- 5.7 One of our main preventative measures is to make sure that the appropriate checks are made before we recruit new employees. Heads of Service and Managers must comply with the Council's Recruitment and Selection Policy. We must always undertake appropriate pre-employment checks (e.g. verification of identity and written references) before any formal offers of employment are made. Some posts, due to the nature of the work and the potential of working with vulnerable people, will also require a Disclosure and Barring Service (DBS) check. We must treat temporary, contract and voluntary employees in the same way as permanent employees.

## **Council Members**

- 5.8 Members are required to operate within:
- The Durham County Council Member Code of Conduct
  - The National Code of Local Government Conduct
  - Sections 94 to 97 of the Local Government Act 1972
  - Local Authorities Members' Interest Regulations and;
  - The Council's regulatory framework including Financial Regulations and Contract Procurement Rules.
- 5.9 These matters are specifically brought to the attention of members at induction and are in each member's handbook.
- 5.10 The member's handbook includes the rules on declaration and registration with the Head of Legal and Democratic Services of potential areas of conflict between members' council duties and responsibilities, and any other areas of their personal or professional lives.
- 5.11 Durham County Council has in place an Overview and Scrutiny Committee. The responsibilities include a review of decisions and actions undertaken by the County Council. Any matter arising from this process, in which fraud is suspected, can be referred to DCC Corporate Fraud Team for independent investigation.
- 5.12 The County Council has established a Standards Committee, which has independent representatives within its membership to examine issues of misconduct by its members.
- 5.13 The County Council's Audit Committee has within its rules of governance a responsibility to review the effectiveness of Internal Audit including their work in respect of fraud.
- 5.14 The Local Government Act 2000 requires all members to give written undertaking to comply with the Member Code of Conduct if they are to remain on the Council.

## **Internal Control Systems**

- 5.15 We have developed systems and procedures that include effective and efficient controls. These are designed to achieve clarity and accountability. One important control is giving people separate duties. This prevents any one person having too great an influence over any transaction. Our controls are designed so that even if fraud should happen, we will find it quickly and identify those responsible. We regularly review the effectiveness and appropriateness of these controls, including an independent review by Internal Audit.



- 5.16 The Corporate Director, Resources has a statutory responsibility under Section 151 of the Local Government Act 1972, to ensure proper arrangements are made for the County Council's financial affairs. In addition, under the Accounts and Audit (England) Regulations, the Council is required to maintain an adequate and effective internal audit of all its financial records and systems of internal control.
- 5.17 We have Financial Regulations and Contract Procedure Rules that outline best practice. Heads of Service must ensure that all of their employees are aware of the content of Financial Regulations and other regulatory documents and that they are complied with.
- 5.18 In line with section 5 of the Local Government and Housing Act 1989, the Head of Legal and Democratic Services is named as the Council's monitoring officer. The monitoring officer must tell members of the Council if, at any time they feel that any proposal, decision or omission by the Council, or any of our committees, sub-committees or officers constitutes breaking the law or may lead to our breaking the law or to maladministration.
- 5.19 The Chief Internal Auditor and Corporate Fraud Manager is nominated as the Council's Money Laundering Responsible Officer (MLRO). The MLRO will, in consultation with the Corporate Director, Resources, assess reports of money laundering received from Council employees and will, where appropriate, forward these to the Serious Organised Crime Agency. The Council's Anti-Money Laundering Policy sets out our arrangements in greater detail.
- 5.20 If there are any problems, we have suitable disciplinary procedures and rules for all employees and councillors.

### **Working with Others**

- 5.21 We expect all people and organisations to act honestly in their dealings with us. We will check contractors' and suppliers' references as well as carrying out suitable financial checks.
- 5.22 We welcome the help of a variety of people and organisations including:
- the public, local business community and media;
  - our suppliers, contractors, consultants and service providers;
  - the external auditor, who makes sure that we have good arrangements in place to prevent and detect fraud and corruption;
  - central government departments and parliamentary committees, external service inspectorates, including the local government ombudsman;
  - HM Revenue and Customs
  - Durham Police; and
  - Department for Work and Pensions

- 5.23 There are a variety of arrangements in place, which assist and support the regular exchange of information with both internal and external bodies. This network includes:
- Durham Police – Serious and Organised Crime Directorate;
  - National Anti-Fraud Network;
  - CIPFA Better Governance Forum;
  - Networks of heads of internal audit;
  - External auditors;
  - The National Fraud Initiative data matching exercise.
- 5.24 As technologies develop, there is an ever increasing need to take advantage of the processing and analysis of data stored through the County Council and beyond. This enables the information and intelligence to be generated, which is a recognised means of detecting and preventing fraud, corruption and bribery. Durham County Council has a data matching tool to assist in the prevention and detection of fraud. All data matching is carried out within the requirements of legislation and the Information Commissioner.
- 5.25 The Council is committed to exchanging information with other local and national agencies; activities such as these are carried out in full compliance with the Data Protection Act 1998 and with the codes of practice for National Fraud Initiative data matching exercises and includes provision of information to other agencies for data matching purposes.

## **6. DETERRANCE**

- 6.1 There are a number of ways in which we deter the potential of fraud from being committed or attempted fraudulent or corrupt acts, whether they are inside or outside of the County Council. These include:-
- Publicising that Durham County Council does not tolerate fraud, corruption or bribery by promoting this at every opportunity.
  - Acting quickly, efficiently, and decisively when fraud, corruption or bribery is suspected and proven
  - Taking action to recoup the maximum recoveries (including losses and costs) for Durham County Council
  - Having sound internal control systems, that still allow for innovation and calculated risk, to create opportunities for the County Council whilst minimising the potential risk for fraud, corruption and bribery.
  - The Council confidential reporting code (whistleblowing policy).
  - The operation and publicity of the Corporate Fraud Team.
  - Optimising publicity opportunities associated with counter fraud within the Council.
- 6.2 It is the responsibility of Corporate Directors to communicate the Counter Fraud and Corruption Strategy to all managers and employees and to promote greater awareness of the risk of fraud within their Service Groupings.

## **7. DETECTION AND INVESTIGATION**

7.1 It is the responsibility of all managers to maintain good control systems and procedures, and to ensure that all employees comply with the instructions contained therein.

7.2 The alertness of councillors, employees and members for the public are essential in the detection of any possible fraudulent activities. They are positively encouraged to raise any concerns in connection with any of the Councils activities. Concerns can be raised by any of the following means;

- Line managers
- Corporate Fraud Team
- Corporate Director, Resources
- Chief Executive / Corporate Director
- Chief Internal Auditor and Corporate Fraud Manager
- Council complaints procedure
- Confidential reporting Code(Whistleblowing policy)
- Fraud hotline
- Fraud email

7.3 Alternatively, concerns can be raised independently of the council:

- the council's External Auditors, Mazars
- your local Citizens' Advice Bureau
- the police
- the independent whistleblowing charity Public Concern at Work – telephone 020 7404 6609 or further details are available at [www.pcaw.org.uk](http://www.pcaw.org.uk)

7.4 Internal control systems and Internal Audit are part of the Council's preventative systems. These should be sufficient to deter fraud but are also designed to indicate any potential fraudulent activity. Within the scope of their work Internal Audit will:

- Endeavour to reveal serious defects in the internal controls which may lead to the perpetration of fraud
- Be alert to the possibility of malpractice
- Take nothing for granted
- Be aware of the possibility of collusion

7.5 Information received relating to potential fraud, corruption or bribery will be reviewed by the Corporate Fraud Team and investigated.

- 7.6 Depending on the nature and the extent of the information obtained the Corporate Fraud Team will work closely with:-
- Human Resources
  - Service Grouping Management
  - Legal Services
  - Other agencies – DWP, Police, other Local Authorities
- 7.7 By working closely and joined up, this will ensure that all allegations and evidence are supplied, are properly investigated and reported upon, and that where possible, losses are recovered for the County Council. Where appropriate this will include the use of Proceeds of Crime Act 2002.
- 7.8 Where a Durham County Council employee has been involved in fraudulent activity they will be subject to disciplinary action in line with the relevant policies and procedures.
- 7.9 Where financial non-compliance or wrongdoing is discovered relating to employees, members or grant aided external organisations; the matter may be referred to the police in accordance with the Fraud Response Plan.
- 7.10 Referral to the police will not prevent any action under the internal disciplinary policies and procedures.
- 7.11 All complaints against members of staff are referred from the outset to Human Resources, Service Manager and Internal Audit & Corporate Fraud Team.

## **8. AWARENESS**

- 8.1 It is recognised that the success and credibility of this strategy is dependent on how effectively it is communicated throughout the organisation and beyond. Every opportunity will be taken to bring it to the attention of the members, employees and stakeholders. The strategy will be published on the Council's website and Intranet.
- 8.2 Durham County Council encourages and supports induction training for all employees. Employees involved in internal control systems will be properly and regularly trained to ensure that their responsibilities and duties are highlighted and reinforced. The possibility of disciplinary action is made clear to any officers that ignore training and guidance.
- 8.3 Durham County Council's Corporate Fraud Team will offer training sessions in Fraud Awareness, to promote the Counter Fraud and Corruption Strategy and to give guidance on fraud prevention and detection. It is important to regularly highlight and reinforce each employee's role in this area.

- 8.4 Durham County Council encourages induction training, particularly for employees involved in internal controls and front line staff, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced. Training makes it clear that there may be a possibility of disciplinary action taken against employees who ignore such guidance. Managers also need to be aware of what is expected of them and to enforce the policies and procedures to protect the public purse. Counter Fraud has been included within the Durham Managers programme which shows this commitment.

## **9. CONCLUSION**

- 9.1 Durham County Council has put into place a number of arrangements to protect itself from the risk of fraud, corruption and bribery. However in the current climate of change there are issues that increase the risk. Changes in structures, systems and the reduction in employees, as well as the external pressure due to the economy, all contribute to the risk of fraud.
- 9.2 The Counter Fraud and Corruption Strategy provides a framework for preventing and tackling anti-fraudulent and corruption acts against Durham County Council. The approval of the strategy by the Audit Committee, on behalf of Durham County Council, demonstrates the Council's commitment to the protection of public funds and the minimising of losses.
- 9.3 Having made this commitment it is imperative that arrangements for the circulation of this strategy and promoting fraud awareness across the Council are maintained.
- 9.4 Durham County Council has an array of measures and procedures to assist in combatting fraud and corruption. It is determined to keep pace with any future developments in preventative and detection techniques and to be able to respond and make changes to its Counter Fraud strategy. This Counter Fraud & Corruption Strategy and its effectiveness will therefore be subject to regular review.