



South
Cambridgeshire
District Council

A councillor's guide to bribery and fraud prevention



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Foreword

This information has been compiled as a guide for elected members. It makes no judgement about whether you have been a member for some time, or whether you have been elected more recently. If you fall into the former category the information should serve as a useful reminder of some of the key skills, approaches and tactics involved in neighbourhood and community engagement – it may even challenge you to reconsider how you have approached aspects of the role to date.

Those members who are new to local government will recognise that they have much to understand. This guide will help you to get up to speed on the main areas of the neighbourhood and community engagement role that require focus and attention. In effect, it should provide you with some pointers on how to develop a style and approach that you are comfortable with, and that enables you to be most effective in your day to day duties.

There are a few firm rules for ward members as it is recognised that each individual must decide how best to approach the role. This will be influenced by the other commitments in your life, the type of ward you represent and the methods and approaches that suit you best. There is no presumption about 'typical wards' or 'typical members' and the guide should serve more as a direction marker rather than a road map.

The key purpose is to think about your own approach to neighbourhood and community engagement – and decide how the information relates to your local situation, the people you serve and the council you represent.

In reading through the material contained in this guide you will encounter a number of features designed to help you think about the issues surrounding the development of neighbourhood and community engagement. These features are represented by the symbols shown:



Guidance – this is used to indicate guidance, research, quotations, explanations and definitions that you may find helpful.



Case studies – these are 'pen pictures' of approaches used by councils elsewhere.



Hints and tips – a selection of good practices that you may find useful.



Useful links – these are signposts to sources of further information that may help with principles, processes, methods and approaches.

Section 1 Fraud from a local authority perspective

The scale of fraud

The challenge presented by fraud to councils is significant. As stated in 'The Local Government Counter Fraud and Corruption Strategy 2016-2019' (usually known as Fighting Fraud and Corruption Locally), it is estimated that fraud costs councils around £2.1 billion each year and some reports produced by other organisations suggest that this figure could actually be higher.

The CIPFA (Chartered Institute of Public Finance and Accountancy) counter fraud and corruption tracker, known as CFaCT is an annual survey of fraud activity in councils (and some other public bodies) and measures detection rates across local government and across different types of fraud. Based on returns in 2016 CIPFA estimates that over £325 million worth of fraud was detected in the UK public sector in 2015/16, with the biggest fraud areas being council tax and housing tenancy fraud. In previous years housing benefit fraud will have figured highly on this list.

Whatever the stats and reports say, it is clear that every pound lost by councils to fraud is a pound that cannot be spent on supporting the community.



Useful links

The full CFaCT report for the UK can be found here:

www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker

If your authority took part in the survey they will have received a free comparison report showing their counter fraud activity compared to other authorities in the same tier. See if you can obtain a copy from your fraud manager or head of internal audit.

If your council didn't take part in the survey perhaps you can encourage them to do so next year?

The Fighting Fraud and Corruption Locally strategy and companion documents can be found at:

www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally

The impact of fraud

The impact of fraud should never be underestimated. Fraud leaves the council with less to spend on services for residents and costs taxpayer's money. Fraud against a local council is not a victimless crime.

There's not only the lost/stolen money to consider but also the:

- loss of working time, with officers putting things right and liaising with police and lawyers
- cost of the investigation and any subsequent court costs
- increased insurance premiums.

There are also non-financial implications that are often forgotten. These will also, indirectly, have a financial impact, which is often difficult to qualify, such as:

- reduced or poor service for residents
- political impacts, eg government interventions, by-elections
- reputational damage for individuals or the council as a whole
- poor staff morale leading to poor performance and/or more fraud.

What is fraud?

'Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.'

'Managing the business risk of fraud'

published by the Institute of Internal Auditors, et al

There are a number of definitions of fraud that are commonly used, however the majority of crimes committed that are considered to be fraud will be prosecuted under the Fraud Act 2006. Many activities that are carried out by councils are covered by specific legislation, for example, offences such as making false statements in order to obtain a council house or unlawful sub-letting of a council tenancy.



Useful links

You can find out more about bribery and corruption by completing the CIPFA's Bribery and Corruption e-learning module, in partnership with the LGA. To access the site for the first time, please email: elearning@local.gov.uk
<http://lms.learningnexus.co.uk/LGA>

Fraud Act 2006

This legislation was introduced to make the law of fraud simpler and more readily understandable providing a clear understanding of the ways in which fraud can be committed. The Act gives us the provision for the general offence of fraud which is made up of three key sections:

There are many other 'activities' that may fall under the overarching definition of fraud and are indeed types of fraud, the most common of these include:

- corruption
- bribery
- theft
- money laundering.

To give a clearer understanding of these terms, they can be defined as:

- **Corruption:** The misuse of a person's position to commit offences, which can include theft, extortion and a number of other crimes, including the soliciting of bribes. The defining characteristic of corruption is that it involves collusion between two or more individuals and is often associated with those holding public office.
- **Bribery:** The offering, giving, receiving, or soliciting of any item of value, or an advantage to another person, to induce that person to improperly perform a relevant function or activity, or to reward them for improper performance.
- **Theft:** Dishonestly appropriating property belonging to another with the intention of permanently depriving that person of it.
- **Money laundering:** The process by which criminals attempt to disguise the original ownership and control of the proceeds of criminal activity by making such proceeds appear to have derived from a legitimate source.

Areas of fraud risk for councils

The estimated annual loss to fraud in councils is £2.1 billion. According to the CIPFA Fraud and Corruption Tracker 2016, the areas posing the highest fraud risk were:

1. Council tax fraud

Fraud can occur when an individual intentionally gives incorrect or misleading information in order to pay less or no council tax. Examples include someone stating that they live alone when another adult also lives there or someone claiming to be a student when they aren't.

2. Social housing/tenancy fraud

The unlawful misuse of social housing. This can be broken down into two main areas; social housing fraud and Right to Buy fraud. The former includes offences such as unlawful subletting, false applications, non-residency and unauthorised tenancy succession and the latter includes fraudulent applications under the right to buy/acquire schemes.

3. Procurement fraud

This occurs in connection within the local authority supply chain. It can happen at any point throughout the procurement cycle but is particularly prevalent in the contract letting phase. It can also include tendering issues, split contracts and double invoicing.

4. Adult social care and direct payments

Includes overstatement of needs through false declarations, multiple claims across authorities, collusion with care agencies and posthumous continuation of claims.



Case study

Dudley Metropolitan Borough Council's Code of Practice

Dudley Metropolitan Borough Council has codes of conduct for employees and councillors which set out the high standards expected of them. These are also intended to relay certain messages to all suppliers as there is a growing expectation that all service providers in local government should adhere to the same principles of being open and transparent when dealing with colleagues, residents and partners.

In developing its 'Suppliers' Code of Practice' Dudley aimed to reinforce good working practices and to stamp out fraud, bribery, corruption and unacceptable business practices.

Staff who buy in goods and services on behalf of the authority and all suppliers are required to work to the guidelines in this code of practice.

All active suppliers have received an email announcing the launch of the code and shown where the code is available on the council's website. The code includes useful contacts if people want to report problems to the council and reinforces the availability of a fraud hotline operated by Audit Services.

Audit Services also intends to approach key suppliers to obtain feedback and ask for written assurance that they comply with the code.

Dudley's leaflet 'Beating fraud is everyone's business', which sets out guidelines for employees, managers and councillors, is available on the CIPFA website.

www.cipfa.org/services/counter-fraud-centre

Reproduced from Fighting Fraud and Corruption Locally 2016-19

Recruitment Fraud

Includes false CV's, job histories, qualifications, references or referees

Insurance Fraud

False claims made against a council or their insurers such as trips and slips.

Grant Fraud

There are many different types of local authority grants paid out to individuals, businesses and charities. Especially during recent times with the Covid 19 Pandemic. Fraud types include work not carried out, funds diverted, ineligibility not declared.

Cyber Fraud

Such as phishing, allowing a range of fraud types resulting in diversion of funds and the creation of false applications for services and payments



Other high risk fraud areas

No recourse to public funds

Fraudulent claim of eligibility, usually by the provision of false papers or by overstaying.

Pension Fraud

Occurs when the pension provider is not notified of changes in circumstances and payments continue to be cashed fraudulently. Examples include failure to notify the pension provider about the death of the recipient and failure to declare returning to work after retirement.

Council Tax Fraud

Council tax is paid by eligible members of a household. A household can apply for a discount if certain situations apply. If this is granted with falsifying information it will be a fraudulent claim.

Business rates (NNDR) fraud

Offences include providing false details to obtain exemptions and reliefs and unlisted properties.

Section 2 Council and councillor responsibilities in relation to fraud prevention and detection

Well governed organisations have a range of policies, procedures and frameworks to support effective risk management, transparency, accountability, financial control and effective decision making, many of which relate directly or indirectly to fraud prevention. Applying these is not only the responsibility of the audit committee or cabinet.

As an elected member, you have an essential role to play in protecting the public purse, in particular within your council. You are responsible for ensuring that your authority adequately manages its risks and that local residents receive value for money. -You have a duty of trust to residents called the 'fiduciary duty' and a major part of this is ensuring that your council adequately controls its finances to reduce losses to fraud and corruption.

In addition to your fiduciary duty, as a councillor you are a public servant and are expected to uphold certain standards of conduct and behaviour in your public life. The Committee on Standards in Public Life calls these standards the 'Seven Principles of Public Life' (also known as the Nolan Principles).



Useful links

If you would like to read more the full report on the Seven Principles of Public Life can be found here:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/543819/CSPL_Annual_Report_2015-2015.pdf

The seven principles of public life

The Seven Principles of Public Life apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the civil service, local government, the police, courts and probation services, non-departmental public bodies (NDPBs), and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources. The principles also have application to all those in other sectors delivering public services.

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

As a councillor you are expected to adhere to a code of conduct. A similar code of conduct will also apply to officers of your council. However, the biggest threat is from external sources, whether that is residents who may lie or exaggerate their circumstances to defraud or steal from the council or large scale, organised fraudsters, attacking public sector organisations as they perceive them to be a 'soft target'.

As a councillor your role in protecting the public purse may take a number of guises depending on your role and the responsibilities of your council but they may include:

1. reporting suspicious activity in your locality to your audit or fraud team eg subletting or council tax evasion
2. scrutinising risk registers and challenging if the fraud risks appear to not be well managed
3. oversight and scrutiny of budgets, especially in high risk areas
4. ensuring you declare any interests if you sit on committees such as planning
5. monitoring performance of your audit or fraud team with regard to detection and prevention of fraud
6. supporting the principles of good governance, and supporting an anti-fraud culture across the council, including whistleblowing
7. supporting the publicising of successful prosecutions by your council to act as a deterrent and perhaps providing quotes to the press if appropriate.

Something to think about...

'Most public officials have probably never been offered a bribe and would feel pretty confident that they could spot the offer. If they don't necessarily think of themselves as totally incorruptible, they often think they can avoid getting entangled in situations where their conduct may be called into question. However, thinking you don't need help or guidance in knowing what is legal or illegal, or even what is right or wrong, in every circumstance is a risk – a risk that could and should be avoided by getting the most of what help and guidance is available.'

Prof Alan Doig

Visiting Professor, Newcastle Business School,
Northumbria University

Section 3 The fraud responses

Councillors are not responsible for investigating fraud. If you become aware of fraud, or suspect it, you should immediately report it to the responsible officer in accordance with your authority's local procedures and policies. Do not be tempted to begin an investigation yourself, even if this appears to be helpful.

However, you should be aware of the arrangements your council has in place for responding to fraud and this is particularly important if you are given special responsibilities in this area, such as being a member of the audit and/or governance committee.



By using this strategy local authorities will:

- *develop and maintain a culture in which fraud and corruption are unacceptable*
- *understand the harm that fraud can do in the community*
- *understand their fraud risk*
- *prevent fraud more effectively*
- *use technology to improve their response*
- *share information and resources more effectively*
- *better detect fraud loss*
- *bring fraudsters to account more quickly and efficiently*
- *improve the recovery of losses*
- *protect those at risk.*

Govern

The bedrock of the strategy is that those who are charged with governance support the activity by ensuring that there are robust arrangements and executive support to ensure counter fraud, bribery and corruption measures are embedded throughout the organisation. Beating fraud is everyone's business. The internal arrangements that are put in place should be communicated throughout the organisation and publicly available to demonstrate the culture and commitment to preventing fraud.

Without exception the research revealed an 'ask' that those charged with governance be directed to the strategy and that this become a key element. During the research for FFL 2011 and 2016 it was requested that some key points be laid out for those charged with governance in local authorities to make it simple for them to ensure fraud was being tackled. This request was repeated on numerous occasions during the workshops for FFCL 2020. Some basic questions are laid out at the end of the strategy in Appendix 1.

The supplements to this strategy lay out some key stakeholders, their roles and the areas that they should consider when evaluating the counter fraud efforts in their organisations.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

Acknowledge

In order to create a counter fraud response an organisation must acknowledge and understand fraud risks and then demonstrate this by committing the right support and appropriate resource to tackling fraud.

This means undertaking a risk assessment of fraud areas and vulnerabilities and then agreeing an appropriate resource. Not every local authority requires a large team but they should have assessed the risk, have a plan to address it and have access to resources with the right capabilities and skills.

Case Study

An interim manager hired vehicles for personal use covering at least nine different vehicles and costing more than £18,000. The fraud included various invoice frauds for gardening services and over £20,700 paid to the interim manager's account.

In total the interim manager's actions resulted in monies, goods or services with a total value of £60,882.16 being ordered or obtained at a cost to the council from seven suppliers, including false invoices purporting to be from a gardening company.

Thirty-one fraudulent invoices were introduced by the interim manager totalling over £48,000 and were processed, authorised and paid using the council's systems. A further eight invoices totalling

more than £7,000 were subsequently authorised by the interim manager's line manager for liabilities incurred by the interim manager. Employee purchase cards were used to pay for goods worth over £1,270 and the interim manager personally benefited by £4,000 from the compensation payment and over £20,780 from the fraudulent invoices he submitted from the gardening company.

The fraud was discovered via a whistleblowing referral to audit services

The council's investigation found that the maintenance company with the same bank account as the interim manager's company did not exist. The council's audit services department led an investigation with the police to take the matter to Birmingham Crown Court where the interim manager pleaded guilty to Fraud Act offences. He was sentenced to three years' imprisonment on 25 September 2019.

Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response on sanctions and collaboration.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

A further theme has appeared during the research to link with the government strategy but also recognising the increased risks to victims and the local community.

Prevent

Fraud can be prevented and detected by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Local authorities should set in place controls to prevent fraudsters from accessing services and becoming employees. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users. If someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds. In any case they may not have the training or qualifications to perform the job to the required standard.

Case Study Pursue

Subletting Case Study Westminster City Council – unlawful profits

The council investigated following an anonymous tipoff that the tenant of a council property was not using the address as required by their tenancy and was profiting from the short-term letting of the property using Airbnb.

Searches of Airbnb carried out by the investigator found the property, which is a studio flat, advertised as a whole property with over 300 reviews. The council investigator found that even though the listing was not in the tenant's name, some of the reviews mentioned the tenant by his name, thanking him for his advice and local restaurant recommendations.

The council obtained the tenant's bank statements under the provisions of the Prevention of Social Housing Fraud Act using the authorised officer service provided by the National Anti-Fraud Network. The investigator subsequently found credits totalling over £125,000 covering four years.

All payments were credited from Airbnb, PayPal or Worldpay. When investigators visited the property they found a man at the premises who denied being the tenant even though his appearance matched the tenant's description. The next day the adverts had been removed from Airbnb but the investigator

had already retrieved and saved copies. The tenant failed to attend several interviews under caution, but when possession action began his solicitors asked for a further opportunity for their client to be interviewed under caution to provide an account of events. This was agreed but again the tenant failed to attend the interview. Having applied the Code for Crown Prosecutors to the facts of the case and the defendant's personal circumstances, criminal action was not taken.

At the possession hearing, the District Judge said the Airbnb evidence was strong and that there was no distinction between 'short-term let' and subletting the home. The judge found in favour of the council. At an unsuccessful appeal hearing the judge agreed to the council's unlawful profits order of £100,974.94 – one of the highest that has ever been awarded to the council.

The tenant has now been evicted from the property.

Investigative approaches

Councils need to regularly review their approach to fraud investigation and adapt when necessary.

Some councils have dedicated corporate anti-fraud teams to deal with all types of fraud and corruption. Others rely on audit staff to conduct investigations and some bring in outside experts when the need arises. Some councils have merged their internal audit and fraud teams to reduce costs. None of these is necessarily better or worse; it depends upon the circumstances of the authority. However, fraud investigation is a specialist job so it is important that councils have access to such trained and experienced staff. Irrespective of how any council decides to tackle its fraud and corruption risk, there are always two types of investigation that councils may be involved in; proactive and reactive.



Case study **Recovery of fraud losses**

A council employee was illegally paid to provide confidential contract information.

The employees' responsibilities included awarding council contracts for ICT equipment. The employee introduced two new suppliers to the tender list, subsequently advising them of tender submissions by competing companies.

This enabled the two companies concerned to underbid competitive rivals to secure the contracts.

The fraud was identified as a result of information from an anonymous informant.

The employee was dismissed and subsequently found guilty under the Fraud Act and sentenced to two years' imprisonment.

The council successfully obtained a confiscation order under the Proceeds of Crime Act for £75,000 which was the amount the employee had illegally been paid.

Source: Audit Commission (2014)

Proactive investigations

These are intelligence led, making use of information from profiling or data-matching exercises.

A common example of this type of investigation would be where the authority was looking to identify people defrauding the council tax single person discount (SPD) scheme.

A household with only one adult is entitled to a 25 per cent discount on their council tax. Checking council tax records against the electoral role can identify cases where a person claims to be living alone is actually living with another adult. This type of data matching is legal and very effective in finding errors or frauds.

National Fraud Initiative (NFI)

The National Fraud Initiative (NFI), coordinated by the Cabinet Office matches electronic data within and between public and private sector bodies to help prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

Participation in the NFI is mandatory for councils who are required to submit data to the National Fraud Initiative on a regular basis.

Reactive investigations

These involve the search for and the gathering of evidence following an allegation or fraud referral, or the discovery of a set of circumstances which amount to an offence. In these cases, the offence is usually already being committed.

An example would be where a member of the public contacts a council to inform them that one of their council tenants is unlawfully sub-letting their council property.



Case study

London Borough of Harrow and Luton Borough Council (NFI 2012/13 exercise)

A payroll-to-payroll match identified an employee who was working full-time in a middle management position, in addition to a part-time night care worker role dealing with vulnerable adults. During the investigation it was established that some weeks she worked in excess of 70 hours, potentially placing vulnerable adults at risk.

There was a suspicion that she had been able to work both shifts on a weekly basis by sleeping whilst at work and the information shared between councils showed that she regularly breached the Working Time Regulations.

After investigation, she was found guilty and dismissed for gross misconduct by one authority and subsequently disciplined by the other for breaching the Working Time Regulations, but later resigned from the role.

This case study comes from the official Cabinet Office NFI pages and is one of many case studies to be found there. They make interesting reading. You may very well find one from your council there. Take a look.

[www.gov.uk/government/publications/
national-fraud-initiative-case-studies/nfi-
public-sector-case-studies](http://www.gov.uk/government/publications/national-fraud-initiative-case-studies/nfi-public-sector-case-studies)

In these cases a professionally qualified investigator, will carry out an investigation that could have some or all of the following components:

- evidence gathering
- interviewing witnesses and taking statements
- interviewing the alleged perpetrator
- preparing the case for court
- giving evidence at court.

The challenges faced by councils in dealing with fraud and corruption

There are a number of challenges facing councils and their ability to effectively tackle fraud and corruption and to manage the risk it poses.

Public sector budget reductions

The impact of budget reductions has a three-fold effect:

- less resources to maintain administrative procedures that prevent fraud
- potentially reduced resources for investigating fraud
- the risk of greater fraud activity by professional criminals or opportunists who identify local authorities as more vulnerable.

These challenges have led to innovative thinking on ways of approaching the fraud and corruption risks such as joint working with other authorities or other public bodies and data sharing (such as the London Counter Fraud Hub). The best and most forward thinking councils use budget constraints as the impetus to drive forward the robust recovery of losses and other criminal assets which can and do lead to significant financial rewards.

Some councils who employ successful financial investigators generate income by charging other organisations such as housing associations for investigative services.



Case study

Example of joint working

The Metropolitan Police's Serious and Organised Crime Command has successfully collaborated with financial investigators from several London borough councils. There are currently nine Metropolitan Police Criminal Finance Teams set up as hubs – four in the north, four in the south and one central team – that are instrumental in training and mentoring several council investigators working together to tackle serious and organised acquisitive crime. The focus of this relationship is to recover assets and ensure that criminals do not benefit from criminal activities.

Abiding by the rules

In dealing with fraud, councils need to abide by the rules in order to ensure that frauds they detect and investigate can be pursued to the most appropriate conclusion. The rules protect the rights of individuals to privacy and the right to a fair trial. Although there are frequent stories in the press about councils 'snooping' on people, the rules are in fact very strict.

For example:

Regulation of Investigatory Powers Act (RIPA) 2000

This was brought in to regulate the powers of public bodies who carry out surveillance and investigation and also to cover the interception of communications. Councils have access to some of these powers for the purpose of prevention and detection of a crime.

More sophisticated frauds

The landscape of fraud and corruption is ever-changing, especially with the use of technology and the internet. Fraudsters never rest on their laurels and are always looking for new ways to defraud. This means council are constantly exposed to different threats and managing this risk can be extremely difficult so it's extremely important that the investigators keep abreast of emerging risks and trends and share this across the council, but in particular with key teams such as payments.

The advent of 'cyber crime', whether or not it involves fraud, is probably one of the biggest challenges facing public bodies today.

Publicising success

While it may be embarrassing for any organisation, especially a local council, to admit that it has been the victim of fraud, experts would say that publicising successful investigations, where possible, is much the best policy. When a case ends up in court it will in any case become public. Proactive publicity shows residents and taxpayers that you are taking active steps to protect their interests and it may deter future fraudsters. Press and media teams can help to make sure the message is seen in a positive light.

Section 4 Fraud risk management

This will be more relevant if you have special responsibility for audit, risk or governance.

Risk management is essential for good governance within any organisation and effective fraud risk management is a vital part of that.

If you have a special responsibility as a councillor for audit, risk or governance, you will need to ensure that your council has appropriate arrangements in place to manage the risk of fraud.

All councils have faced and are still dealing with increased pressure on their budgets meaning that the requirement to identify fraud and reduce risk is perhaps higher now than it's ever been.

The CIPFA code of practice on the management of fraud risk sets out the expected standard for public bodies in the management of fraud risk.

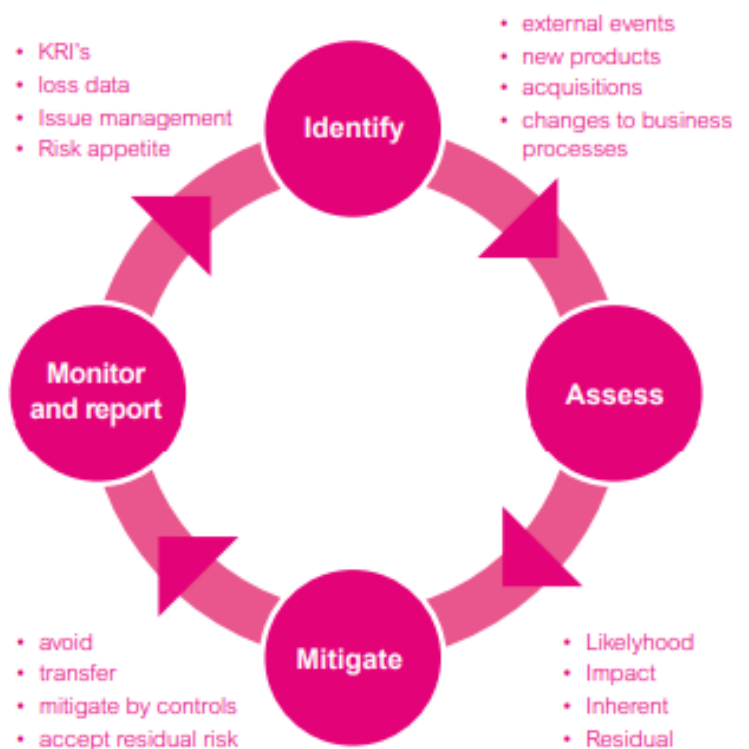
Implementing an effective fraud risk management framework, such as the CIPFA code of practice, will enable authorities to employ controls that help to prevent fraud from occurring in the first place, identify and detect fraud as soon as it occurs and enable a practical and efficient response to those fraud incidents. Fraud risks need to continually reviewed and managed, in the same way that other risks are managed within a council. The identification, assessment, mitigation and monitoring of risk (including fraud risks) is called the risk management lifecycle. The process works as such:



Hints and tips Code of practice principles

Leaders of public services organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management. The five key principles of the code are to:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.



To help ensure that the fraud risk management is effective, it's important that the roles and responsibilities of all employees, members and those who act on behalf of the council are understood by all. The list below is not exhaustive but the main roles can be summarised as follows:

Councillors

- ✓ Have and maintain an understanding of fraud risks
- ✓ Understand the key principles of risk management
- ✓ Consider fraud risk in relation to the decision making process

Directors

- ✓ Support the council's fraud risk management strategy
- ✓ Set the appropriate tone with regards to the council's anti-fraud and corruption approach
- ✓ Ensure that there is a coordinated and consistent approach to the identification and management of fraud risk

Senior managers/service heads

- Ensure that fraud risks are appropriately managed and implement effective review and monitoring arrangements
- Manage risk in their service areas in accordance with the fraud risk management strategy

Internal audit/corporate fraud team

- ✓ Consider the council's fraud risk assessment when developing the annual audit plan
- ✓ Audit the internal fraud control processes across the authority
- ✓ Coordinate and/or conduct fraud and corruption investigations
- ✓ Assess the effectiveness of fraud prevention and detection processes
- ✓ Provide assurance to councillors and senior management of the effectiveness of fraud risk management and controls

All staff

- ✓ Have a basic understanding of fraud risks and be aware of indicators
- ✓ Manage fraud risk in the course of their daily duties
- ✓ Read, understand and have access to fraud related policies and procedures
- ✓ Contribute towards the development of fraud control processes
- ✓ Report suspicions of fraud and corruption
- ✓ Cooperate with investigations

The development and implementation of a robust fraud risk management program will reduce the opportunities for fraudsters to exploit. This, coupled with encouraging employees to actively participate in the fight against fraud will contribute significantly to the creation of a strong anti-fraud culture; helping to change the attitude towards fraud so that it is not tolerated and therefore reducing the risk of fraud happening in the first place.

Fraud risk assessment

The basis of an effective fraud risk management program begins with a Fraud Risk Assessment (FRA).

Councils are likely to face a wide variety of fraud and corruption risks and so a FRA will help the council to understand and identify the risks that are specific to the organisation as a whole as well as those that relate to individual service areas. It will also highlight gaps or weaknesses in fraud controls allowing the council to implement a plan to ensure the best use of resources in order to tackle those risks.

When conducting a FRA the questions that should be considered are:

- How could a fraudster exploit weaknesses in the current system controls?
- How might those controls be over-ridden or by-passed?
- How could the fraudster conceal their activities?

Bearing the above in mind, an effective FRA should generally consist of three main elements:

- **Identification of the fraud risk**

This will involve the gathering of information to highlight the fraud risks that could affect the council.

- **Assess the likelihood and impact of the fraud risk**

This assessment is based on historical information, and discussions/interviews with heads of services and other relevant staff.

- **Develop a response to those that present the highest risk**

Decide how best to respond to the fraud risks.



Useful links

Managing the risk of fraud and corruption

www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-managing-the-risk-of-fraud-and-corruption-guidance-notes-hard-copy

In addition to the Code of Practice the Fighting Fraud and Corruption section of the CIPFA website provides a range of free resources to support councils in their fight against fraud, such as leaflets and posters and a good practice bank: www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally

What good looks like – the Fighting Fraud and Corruption Locally Strategy



Turning strategy into action

The themes – Six Cs

Councils should consider their performance against each of the six themes that emerged from the research conducted.

Culture – creating a culture in which beating fraud and corruption is part of daily business.

Capability – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks.

Capacity – deploying the right level of resources to deal with the level of fraud risk.

Competence – having the right skills and standards.

Communication – raising awareness, deterring fraudsters, sharing information, celebrating successes.

Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

In addition to the above, the CIPFA code of practice on managing the risk of fraud (see section 4) is there to support organisations putting in place counter fraud arrangements for the first time but will also be of benefit to those seeking to assess whether existing arrangements are adequate. Councillors may wish to ascertain whether the arrangements in their own council compare favourably with the recommended best practice approach.