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ANNUAL REVIEW OF COUNTER FRAUD, BRIBERY AND ANTI-CORRUPTION STRATEGY

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1. Summary

This report outlines the measures undertaken in the last year to evaluate the potential for the occurrence of fraud and how the Council manages these risks with the aim of prevention, detection and subsequent reporting of fraud and corruption. In addition the Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed in line with best practice and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the strategy's continuing and important role in the corporate governance and internal control framework.

2. Recommendations

Members are asked to consider, and endorse with appropriate comment, the measures undertaken and detailed in this report, plus any revisions to the Counter Fraud, Bribery and Anti-Corruption Strategy.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1   The adoption and promotion of an effective Counter Fraud, Bribery and Anti-Corruption Strategy, helps the Council proactively encourage the detection of fraud and irregularities, and manage them appropriately.

3.2   In aligning the Council's Counter Fraud, Bribery and Anti-Corruption Strategy with CIPFA's Code of practice on managing the risks of fraud and corruption, the Council continues to apply best practice.

3.3   Internal Audit, working to the Public Sector Internal Audit Standards (PSIAS), has a responsibility to evaluate the potential for the occurrence of fraud and any subsequent management response. This report sets out some of the initiatives employed.

3.4   The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

All revisions can be met from within existing budgets.

5. Background

5.1   The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.

5.2   The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution. It was last reviewed and updated in December 2014. The revisions were discussed at Audit Committee.

6. Issues

National Picture
6.1   The first Protecting the English Public Purse (PEPP 2015) report by The European Institute for Combatting Corruption and Fraud (TEICCAF) was developed by the former counter fraud team of the Audit Commission (now part of TEICCAF). The Institute continues the national series of reports previously published by the Audit Commission, and reports on national, regional and local fraud detection by English councils.

6.2   In total, English councils detected fewer cases of fraud in 2014/15 compared with the previous year. However, the value, in monetary terms, increased by more than 11 percent. In particular:

- the number of detected cases fell by 18 per cent to over 84,000 while their value increased by 11 per cent to £207 million;

- the number of detected cases of housing benefit and council tax benefit fraud fell by more than half to just over 27,000 while their value fell by almost 17 per cent to nearly £23.5 million. This decline was expected; and

- the number of detected cases of non-benefit (corporate) fraud decreased by 8 per cent to 57,000, while their value increased by 63 per cent to £97 million.

6.3   In addition, councils detected fewer housing tenancy frauds in 2014/15. Regional and local fraud detection results suggest an emerging divergence in the capacity, capability and commitment of some councils to play an effective part in the fight against fraud. As a result, Right to Buy (RTB) and No Recourse to Public Funds[1] (NRPF) have emerged as significant areas of fraud risk for councils.

6.4   The report sets out some recommendations for consideration by both councils and the government, many of which Shropshire Council is already working towards. This includes reviewing counter fraud arrangements, strategy assessment, and methods of recording and reporting fraud. It is recognised that further work is required in these areas.

6.5   The full report can be found at: http://www.teiccaf.com/protecting-the-english-public-purse-2015/

CIPFA's Counter Fraud Assessment Tool

6.6   CIPFA have developed and shared a counter fraud assessment tool. The tool is designed to help councils assess their counter fraud arrangements against the standards set out in the CIPFA counter fraud code which was reported to Committee last November. The tool can be used as a basis for ongoing improvement and development planning and to provide assurance on the adequacy and effectiveness of the Council's counter fraud arrangements.

6.7   The assessment tool contains 68 performance statements which can be used to measure effectiveness against the five key principles of managing the risks of fraud and corruption, which are to:
- Acknowledge responsibility;
- Identify risks;
- Develop strategy;
- Provide resources and
- Take action.

Completion of the assessment generates a written statement of performance to date and a summary assessment against each of these principles. The model also facilitates a data exchange and comparison with other organisations. It is not intended to use this facility at the current time however as the benefits are considered limited.

6.8   Following the assessment, Shropshire's compliance with CIPFA's Code of Practice on managing the risks of fraud and corruption were summarised as follows:

Acknowledge responsibility
The Council has reached a good level of performance. The leadership team is acknowledging the risks and demonstrating positive leadership to help build an anti-fraud culture and proactively manage risk. There are some areas where

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[1] A number of councils, mainly London boroughs, have highlighted this as an emerging fraud risk, namely, 'No Recourse to Public Funds' (NRPF). This fraud involves persons from abroad who are subject to certain immigration controls which prevents them from gaining access to specific welfare benefits or public housing, fraudulently claiming such benefits.

more could be done on a regular basis to ensure the focus is maintained and to publicly demonstrate the Council's anti-fraud commitment.

Identify risks
The Council is meeting the standard set out in the Code of Practice. It has comprehensive arrangements for fraud risk identification and assessment and is working to actively manage those risks. The Council's high level of performance in this area means that it is taking robust steps to improve and maintain its resilience to fraud.

Develop strategy
The Council has reached a good level of performance. It has in place a strategy to address its fraud and corruption risks and it includes proactive as well as responsive approaches. There are some areas where more could be done to ensure the strategy is operating effectively across the Council and provides for clear leadership, review and oversight.

Provide resources
The Council is meeting the standard and has in place robust processes for reviewing its capacity and capability which aligns with its counter fraud strategy. It is taking robust steps to improve and maintain its resilience to fraud.

Take action
The council is meeting the standard and is actively implementing the actions identified in its counter fraud strategy and responding effectively to the risks emerging. It reviews its performance and has arrangements in place to provide assurance and accountability. The Council's high level of performance in this area means it is taking robust steps to improve and maintain its resilience to fraud.

In summary
The Council is meeting the standard set out in the CIPFA Code of Practice on managing the risk of fraud and corruption. Leadership has acknowledged its responsibilities for managing risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements to carry it out, and is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the Council and meeting the standards of this code contributes to good governance. Whilst no organisation is fraud proof, Shropshire Council has taken robust steps to ensure its resilience.

6.9   Areas identified for improvements following this review will be targeted as such and reported back to Committee.

National Fraud Initiative (NFI)
6.10   The Council continues to participate in this exercise, the details and results of which are reported upon in a separate report on this agenda.

Transparency requirements
6.11   New legislation on transparency also applies to anti-fraud activities. The Local Government Transparency Code sets out the minimum data that local authorities

should be publishing, the frequency with which it should be published and how it should be published. The Council has complied with these requirements, the results of which can be found on the web site at:
https://www.shropshire.gov.uk/open-data/fraud-data/

Counter Fraud, Bribery and Anti-Corruption Strategy

6.12   CIPFA's Code of practice on managing the risks of fraud and corruption states that an organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

6.13   Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. This strategy is designed to:
- Acknowledge and understand fraud risks;
- Prevent and detect more fraud; and
- Pursue and punish fraud and recover losses.

6.14   This strategy reflects best practice from CIPFA's Code of practice on managing the risks of fraud and corruption, CIPFA's Red Book, the National Fraud Authority (NFA) Fighting Fraud Strategies and guidance from organisations such as ALARM (National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).

6.15   It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the organisation is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).

6.16   The temptation may be to 'pick and choose' actions. However, the full range of integrated action must be taken forward with the organisation's focus clearly on outcomes (i.e. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).

6.17   The strategy has been reviewed to ensure that it continues to:
- Link to the Council's priorities.
- Emphasise the Council's remit to reduce losses to fraud, bribery and corruption to an absolute minimum.
- Demonstrate links between 'policy' work and 'operational' work.
- Show agreement by both the political and executive authority for the Council.
- Acknowledge fraud and identify accurately the risk.
- Create and maintain a strong structure to pursue its remit including:
  - Having the necessary authority and support;
  - Providing for specialist training and accreditation;
  - Completing appropriate propriety checks;
  - Developing effective relationships with other organisations;

- Take action to tackle the problem by:
  - Integrating different actions;
  - Building a strong counter fraud and anti-corruption culture;
  - Having clear actions to deter any problem;
  - Taking action to prevent fraud and corruption;
  - Early detection of any issues;
  - Investigating appropriately in accordance with clear guidance;
  - Having clear and consistent sanctions where fraud or corruption is proven;
  - Having clear policies on redressing losses.
- Focus on outcomes and not merely activity.

6.18 Members are asked to comment on the strategy attached as **Appendix A,** all changes are identified in **bold type and underlined**.

6.19 The main changes reflect:

- Transfer of the responsibility for housing benefit investigation from the Council to the Department of Work and Pensions (DWP) Single Person Fraud Service (SFIS). (Meaning that responsibilities in relation to fraud investigation of benefits are removed from the Strategy document and replaced by details on how to report crime to the DWP.)
- Responsibility for commissioning communications services transferred from the Head of Support Services, a deleted post, to the Director of Public Health.

Update on Regulation of Investigatory Powers Act 2000 (RIPA) Activity

6.20 The Council's Regulation of Investigatory Powers Policy ('the Policy') that sets out the Council's position in respect of the use of surveillance techniques was adopted on 1 August 2013. The Policy needed updating to reflect changes brought into effect through the RIPA legislative framework and to take account of changes to Council personnel. This has resulted in a revised RIPA Policy being formally approved by the Council on 24 September 2015 and adopted with effect from 1 October 2015.

6.21 The Policy states that the Council will ensure that all officers charged with the responsibility of being an authorised officer/designated person will be appropriately supported and trained. In this respect, training was delivered to 16 named authorising officers in October 2015. To ensure RIPA matters are considered across all relevant Council functions at an appropriate level of seniority, all authorising officers are at service manager level (or equivalent) or above and are drawn from a wide range of service areas covering Finance, Governance and Assurance, Business Support and Regulatory Services, Safeguarding, Education Access, Environmental Maintenance, Revenues and Benefits, Outdoor Partnerships and Social Care. Senior officers from Legal and Democratic Services and the Chief Executive support the process. To further embed understanding of RIPA principles into the 'front-line' of service delivery, 31 officers, drawn from across all service areas identified above, were also trained in October this year.

6.22 The use of RIPA is independently overseen by the Office of Surveillance Commissioners (OSC), the Interception of Communications Commissioner's Office (IOCCO) and the Investigatory Powers Tribunal (IPT). The Council was

the subject of an OSC inspection on 9 November 2015, the outcome of which will be reported to Audit Committee in due course.

Other activities

6.23   Following the restructuring in Internal Audit, the service is investing in training to ensure that sufficient officers remain up to date and capable of undertaking investigations in a professional manner as the need arises. Four senior officers have received RIPA training and an Engagement Auditor has successfully completed CIPFA's certificate in investigative practices. The certificate ensures the officer has the legal knowledge and skills essential to carry out an investigation and secure admissible evidence. The course covered legislation, procedures and rules of evidence that impact on auditors' everyday work, plus best practice standards in interviewing, collecting and recording evidence, writing statements and reports and giving evidence in the witness box. Two further auditors are booked on CIPFA's accredited counter fraud technician course (CACFT) in February. This course examines the impact of fraud in the UK and includes an overview of the civil and criminal justice systems. It focuses on fraud awareness, how to gather evidence and how to obtain information without prejudicing any later investigation. In total over a third of the Audit team will have qualifications and/or considerable experience in conducting investigations.

6.24   In terms of *potential* for fraud, a current counter fraud risk assessment has identified one high risk area and a number of medium risk areas. These include:

High
- Treasury management[2]

Medium
- Human resources and payroll, including employees committing benefit fraud, travel and overtime expense frauds;
- Procurement frauds, including false invoices, bank mandate changes;
- Cash collection thefts and petty cash;
- Housing, national non domestic rates (NNDR) and council tax benefits;
- Blue badge disabled parking;
- Social care direct payments and other financial support;
- Abuse of clients funds;

6.25   In the current year, a number of internal audit reviews have been conducted, or are planned, to help ensure appropriate controls are in place and are operational to counter the risk of fraud:
- Treasury management
- Payroll
- Housing benefits
- Council tax
- NNDR
- Parking
- Direct payments
- Personal budgets

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[2] The high risk score is attracted due to the potential impact of any fraudulent activity being of a high material value. Given the mitigating controls in place and the assurances received from an independent annual audit, the likelihood of such an occurrence in this area attracts the lowest score of one, it would be a rare risk occurring in exceptional circumstances. However, a likelihood of one and impact of five, scores high on the Council's risk matrices.

- Purchase ledger
- Sales ledger
- Income collection

These are further supported by specific counter fraud work conducted in the last twelve months in relation to strike payments, driving documentation, and overtime payments with further initiatives planned. In addition, every investigation, where weaknesses have been identified in internal controls, results in a report which lists areas to be improved to help reduce a repeat of any inappropriate activity.

6.26   In summary, the Audit Committee are asked to take assurances as to the level of counter fraud activity currently undertaken with the present resources and approve the minor changes to the Counter Fraud, Bribery and Anti-Corruption Strategy.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA: Code of practice on managing the risks of fraud and corruption, October 2014
The Bribery Act 2010
NFA Fighting Fraud Together, The strategic plan to reduce fraud
Fighting Fraud Locally: The Local Government Fraud Strategy
Enterprise and Regulatory Reform Act 2013
Protecting the English Public Purse (PEPP 2015) report
Report to Council on 24 September 2015 entitled 'Regulation of Investigatory Powers Policy'
Regulation of Investigatory Powers Policy (Version4 09/2015) adopted with effect from 1 October 2015

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendix A: Shropshire Council Counter Fraud, Bribery and Anti-Corruption Strategy