Audit Committee

28 March 2019

SPELTHORNE
MEANS BUSINESS

Title	Anti- Fraud, Bribery and Corruption Strategy
Purpose of the report	To make a decision
Report Author	Internal Audit Manager, Punita Talwar
Cabinet Member	Councillor Howard Williams **Confidential** No
Corporate Priority	Financial Sustainability
Recommendations	**The Audit Committee is asked to:** **1. Endorse the Council's Anti-Fraud, Bribery and Corruption Strategy** **2. Recommend the proposed changes to the Anti-Fraud, Bribery and Corruption Strategy to Cabinet.**
Reason for Recommendation	**The Audit Committee is required to make any recommendations for change to the Cabinet.**

1.   Key issues

1.1   *"All organisations face attack from those who would undertake corruption or commit fraud creating a loss to the taxpayer, reputational risk to the organisation and undermining trust in the government. In an increasingly globalised digitalised world, fraud transcends international borders"*. (A guide to Managing Fraud for Public Bodies, February 2019).

1.2   "*Fraud is a significant risk to the UK public sector and has far-reaching financial and reputational consequences. The government estimates that fraud costs the public sector £31 - £49 bn per year and much of this goes undetected. In addition serious and organised economic crime is a national security issue*".   (HM Government, October 2018)

1.3   The government have over the years increased the number of initiatives in response to the growing level of estimated fraud. Some examples include :

- Government Counter Fraud Profession established (estimated 4000 members)

- International Public Sector Fraud Forum

- Collaborative working such as the National Fraud Initiative - £301 mn prevented fraud identified from data matching exercises

- Government functional standards to set the expectations for the management of fraud, bribery and corruption risks

1.4   Given the above and that Fraud is now considered to be the most prevalent crime in the UK, the continued importance of having a defined approach for how Spelthorne will counter fraud, bribery and corruption in the form of a strategy (which is periodically reviewed) is recognised.

1.5   The Audit Committee is required to review the Council's Anti-Fraud, Bribery and Corruption Strategy annually and to make any recommendations for change to the Cabinet. The Strategy at Appendix 1 forms part of the Council's Constitution and is in line with best practice. The Strategy continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption, demonstrating the important role it plays in the overall corporate governance framework.

1.6   As part of this review, some changes are proposed under each main section of the strategy and have been highlighted in yellow at Appendix 1. These relate to the following sections/references :

- **Introduction** –reference to Ministry of Housing, Communities and Local Government;

- **Culture** – suggested clarification regarding who concerns should be reported to. The importance of Managers and officers at all levels not becoming complacent about the risk of fraud has been highlighted. There is also reference to the Confidential Reporting Code and 'Protect', formerly known as 'Public Concern at Work'. Protect are a registered Charity and provide a confidential advice line for staff and members to raise concerns about possible misconduct;

- **Codes/Procedures** - reference to the planned review of the Council's Constitution in 2019 as well as self- assessment of the authority's Whistleblowing arrangements ;

- **Systems** –reference to maintaining internal controls to minimise the risk of errors, fraud, bribery and corruption;

- **Detection and Investigation** – reference to who concerns should be reported to. The Head of Corporate Governance holds responsibility for responding to allegations of bribery and corruption. Any lessons learnt from Investigations undertaken relating to systematic weaknesses will be highlighted and should feed back into improving fraud prevention/detection measures. A new section has been added setting out the counter fraud measures underway through Spelthorne's collaborative working with Partners;

- **Awareness** – this section has been expanded to reflect developments.

1.2   Various best practice principles promoted in publications such as CIPFA's 'Code of practice on managing the risks of fraud and corruption', 'Fighting Fraud and Corruption Locally' (2016) and HM Government functional standard on Counter Fraud (GovS 013 October 2018) have been considered as part of the strategy review, and current activity is deemed as proportionate relative to the perceived risk and size of the authority. Spelthorne's position is set out below:

1. *Governance*

- Acknowledge the responsibility of the governing body for countering fraud, bribery and corruption and mechanisms for regular engagement
- Strategy setting out how the organisation will develop its arrangements to counter fraud, bribery and corruption which is approved by the relevant body.
- Roles and Responsibilities - Officers and teams responsible for responding to/investigating allegations relating to fraud, bribery and corruption are defined.
- Accountabilities and responsibilities for identifying and managing fraud, bribery and corruption risks are defined.
- Counter Fraud Champion(s) – whilst there is not currently a defined Counter Fraud Champion, Counter Fraud measures led by the Internal Audit Manager are set out in the strategy under 'Detection and Investigation'. These have contributed to promoting awareness of high risk public fraud and the associated threats, as well as best practice measures and collaborative counter fraud initiatives. This is referred to further below under resources.

Spelthorne's position on Governance: The above are met and covered by the Council's Anti-Fraud, Bribery and Corruption Strategy.

2. *Practices and Principles*

- Codes of Conduct - this is referred to in the Strategy.
- Fraud, Bribery and Corruption Risk Assessment –Managers are responsible for identifying fraud, bribery and corruption risks in their services, and for operating systems of control to prevent and detect fraud. Internal Audit provides independent assurance that effective controls are in place to mitigate the risk of fraud, bribery and corruption and issues advice/recommendations for consideration by Management i.e. where it is considered that fraud risks should be more effectively managed. Over the course of time a high level fraud, bribery and corruption risk assessment may be developed which may help inform further proactive counter fraud measures required.
- Reporting routes regarding suspicions are published – this is referred to in the Strategy.
- Evidence based fraud reporting system and quantifiable reporting of estimated financial savings - this is already in place for public fraud identified through quarterly monitoring.
- Reporting of estimated financial losses from internal fraud identified – this will be reported to the Audit Committee periodically to enhance visibility.
- Access to trained Fraud Investigators – this is in place through collaborative working arrangements with Partners.
- Awareness raising and training- The need for delivery of refresher awareness training to help protect the organisation against Fraud, bribery and corruption (for all staff and Members) has been recognised and a proposed agenda has been compiled. Suitable trainers are being explored. Such measures should also contribute to enhancing an anti-fraud culture and encourage people to speak out if they have concerns.
- Awareness raising - In accordance with the Government's Serious and Organised Crime Strategy, local Police representatives have provided two

awareness raising sessions for staff and Members during 2018 to identify areas where Spelthorne is at most risk of being targeted by serious and organised crime, highlighting known vulnerabilities within the borough. During these sessions the importance of sharing intelligence with law enforcement partners has been encouraged. Serious and organised crime groups with terrorist links commit fraud against government bodies and use this to fund such activity. High-value fraud and cybercrime are both examples of organised criminal activity.

- Gifts and Hospitality Policy and Register – this has been recently reviewed and revised processes established (see separate policy reported to the Members Code of Conduct Committee)

Spelthorne's position on Practices: The above are met or underway and are referred to in the Council's Anti-Fraud, Bribery and Corruption Strategy.

3. *Resources to implement the strategy*

Within the organisation's assurance framework, Group Heads and unit managers represent the first line of defence to prevent and minimise the risk of fraud/detect fraud and it is their responsibility to operate appropriate control systems. The Council has a small resource within Internal Audit to advise Managers on the adequacy of control systems in place in relation to fraud prevention/detection, which would generally form part of an audit review. Internal Audit resource also supports internal investigations of suspected fraud or irregularity. The Head of Corporate Governance holds responsibility for responding to allegations of bribery and corruption.

Members have approved in February 2019 continued funding for corporate counter fraud support. Collaborative working with Reigate and Banstead's Counter Fraud team has focussed on high risk areas of public fraud such as Housing and Business Rates and incorporates both proactive and reactive fraud work. This work has generated positive fraud returns particularly in Housing with the introduction of enhanced verification checks for new claims. A joint report prepared by the Deputy Group Head for Customer Relations and Internal Audit Manager was issued to Overview and Scrutiny Committee in 2018 highlighting measures being taken by Spelthorne to address business rates tax avoidance and evasion, along with further initiatives to explore such as use of Financial Investigator resources to recover financial losses arising from fraud identified. Quarterly reporting takes place of cumulative counter fraud returns achieved by Spelthorne in the areas of Housing (non-benefit), Business Rates, and Council Tax. Cumulative fraud returns for Spelthorne up to 31.12.18 exceed £2.4m of which £481k are cashable savings.

Spelthorne's position on Resources: The above position/approach is referred to in the Council's Anti-Fraud, Bribery and Corruption Strategy.

2. Options analysis and proposal

Either:

i. To note the current position and accept the amendments proposed to the Anti-Fraud, Bribery and Corruption Strategy. **(Preferred option)**

Or:

ii. To make no changes to the strategy, thereby not reflecting current practices or requirements.

3.   Financial implications

3.1 Resources required (staff time) to implement actions to prevent and detect Fraud, bribery and corruption risks should be contained within existing budgets. There is approved funding for additional corporate counter fraud resource until March 2022 to support Housing, Business Rates and Council Tax. Costs associated with Corporate Fraud awareness training (for all staff) are being explored with a view to being funded from the corporate training budget.

3.2 There may be a requirement from time to time to bring in subject matter experts and Investigators to undertake or assist Special investigations (relating to suspected internal fraud or irregularity) as there is insufficient capacity within the Internal Audit team to undertake the whole process, particularly given that investigations are often by their nature very resource intensive. Day rates could be in the region of £400 per day. There is currently no specific budget assigned for this purpose.

4.   Other considerations

4.1   Associated risks and consequences of fraud, bribery and corruption include financial losses (potentially high value), reputational damage to the authority, corporate offences (a failure to prevent bribery is now regarded as a corporate offence), significant harm to staff or the local community, and reduced public services for the borough's residents (if resources are exploited by fraudsters).

5.   Timetable for implementation

5.1   There are none.

Background papers: None

Appendices:
Appendix 1 – Anti-Fraud, Bribery and Corruption Strategy