NORTH AYRSHIRE COUNCIL

13 September 2022

Audit and Scrutiny Committee

Title:	**Counter Fraud and Corruption Strategy**
Purpose:	To advise the Audit and Scrutiny Committee of the Council's Counter Fraud and Corruption Strategy, which has recently been refreshed to ensure it remains current.
Recommendation:	That the Committee notes the refreshed Counter Fraud and Corruption Strategy.

1. Executive Summary

1.1 In January 2015, Cabinet approved the Counter Fraud and Corruption Strategy, setting out the Council's zero-tolerance approach towards fraud and corruption.

1.2 The Strategy was refreshed in 2016, in particular to make reference to the role of the Corporate Fraud Team, which was not yet established when the Strategy was approved in 2015.

1.3 The Strategy has been further refreshed to ensure it remains current. The refreshed Counter Fraud and Corruption Strategy is attached at Appendix 1. Minor changes have been incorporated throughout the Strategy; the most notable change is the inclusion of Section 7 on Reporting.

2. Background

2.1 Those responsible for the conduct of public business and the handling of public money will be held fully accountable for their conduct in accordance with the law and proper standards. It is essential that public money is handled with absolute integrity, safeguarded and properly accounted for and used economically, efficiently and effectively.

2.2 To discharge its accountability to the local community, the Council has established and will maintain proper arrangements for the governance of its affairs and the public money at its disposal. The Council is committed to ensuring openness and transparency in the provision of all its services.

2.3 The Council recognises that its resources may be the target of fraudsters, either working outwith or inside the organisation. This Counter Fraud and Corruption Strategy sets out how the Council aims to address the fraud risk it faces.

2.4 The Strategy highlights the areas of the Council's operations that are viewed as being at greatest risk of fraud and corruption. These include:

- employees
- information and cyber security
- procurement and contracts
- finance
- physical security of assets
- licensing
- planning
- housing tenancy
- council tax.

2.5 The Strategy outlines a number of danger signs or 'red flags' to which the Council must be alert in order to maximise the opportunity to identify potential frauds.

2.6 The Council will follow 5 key steps in managing its approach to tackling fraud and corruption. The approach covers proactive steps, aiming to prevent fraud and corruption occurring, and reactive steps when suspected instances are identified. These are:

- deter
- prevent
- detect
- investigate
- enforce.

2.7 In enforcing action, the Council will always pursue a triple-track response to any instances of fraud or corruption which are found to be proven:

- Disciplinary action
- Criminal proceedings
- Recovery action.

2.8 In addition to this Strategy, the Council has a range of related policies and procedures which staff and elected members are required to adhere to; these include the financial regulations, codes of financial practice, standing orders relating to contracts, 'whistleblowing' policy and defalcation procedures.

2.9 The responsibility for creating a strong anti-fraud culture lies both with Elected Members, in particular the Cabinet and the Audit and Scrutiny Committee, and the Extended Leadership Team. All members of staff must remain vigilant to the threat of fraudulent activity and take the appropriate action if suspicions arise.

3. Proposals

3.1 It is proposed that the Committee notes the refreshed Counter Fraud and Corruption Strategy.

4.   Implications/Socio-economic Duty

Financial

4.1   None.

Human Resources

4.2   None.

Legal

4.3   None.

Equality/Socio-economic

4.4   None.

Climate Change and Carbon

4.5   None.

Key Priorities

4.6   Counter fraud activity helps support the efficient delivery of the strategic priorities within the Council Plan 2019-2024.

Community Wealth Building

4.7   None.

5.   Consultation

5.1   No consultation was required in refreshing the Strategy.

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For further information please contact **Laura Miller, Senior Manager (Audit, Fraud, Safety and Insurance),** on **01294 324524**.

Background Papers
None.

North Ayrshire Council

Counter Fraud and Corruption Strategy

Version:	Final
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Author:	Laura Miller
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COUNTER FRAUD AND CORRUPTION STRATEGY

1   Key Messages

1.1   North Ayrshire Council has a zero-tolerance approach to fraudulent or corrupt activity, whether perpetrated by employees, Elected Members, partner organisations, suppliers or service users.

1.2   All parties should remain vigilant to the threat of fraudulent or corrupt activity and should alert the Council when suspicions arise.

1.3   The Council will always investigate allegations of fraud by referring them to the Corporate Fraud Team and thereafter, where appropriate, to the Crown Office and Procurator Fiscal Service (COPFS).

1.4   The Council can pursue a triple-track response to any instances of fraud or corruption which are found to be proven:

- Disciplinary action – any fraudulent or corrupt activity by employees will be regarded as 'gross misconduct' and appropriate action will be taken under the Council's *disciplinary procedures*.
- Criminal proceedings – following the conclusion of any Corporate Fraud Team investigation, fraudulent or corrupt activity may be referred on to Police Scotland or reported directly to COPFS for their consideration of criminal prosecution (with the approval of the Chief Executive).
- Recovery action – the Council will seek to recover any financial loss it has suffered through fraudulent or corrupt activity, either through court proceedings or by pursuing civil action.

2   Introduction

2.1   Those responsible for the conduct of public business and the handling of public money will be held fully accountable for their conduct in accordance with the law and proper standards. It is essential that public money is handled with absolute integrity, safeguarded and properly accounted for and used economically, efficiently and effectively.

2.2   To discharge its accountability to the local community, the Council has established and will maintain proper arrangements for the governance of its affairs and the public money at its disposal. The Council is committed to ensuring openness and transparency in the provision of all its services.

2.3   The Council has adopted a zero-tolerance approach to fraud and corruption and will always refer any allegations for investigation through the Corporate Fraud Team. The Council may report findings to the COPFS where appropriate and will seek to recover any losses due to fraud or other corrupt practices.

2.4   The Council recognises that its resources may be the target of fraudsters, either working outwith or inside the organisation. This Counter Fraud and Corruption Strategy sets out how the Council aims to address the fraud risk it faces.

2.5 In addition to this strategy, the Council has a range of policies and procedures which staff and Elected Members are required to adhere to and these are referred to throughout this document.

2.6 The responsibility for creating a strong anti-fraud culture lies both with Elected Members, in particular the Cabinet and the Audit and Scrutiny Committee, and the Executive Leadership Team. All members of staff must remain vigilant to the threat of fraudulent activity and take the appropriate action if suspicions arise.

3   Definitions

3.1 A number of specialist terms are used throughout this strategy and general definitions (which are not exhaustive) are provided below:

3.2 **Fraud** – the provision of false or misleading information, the intentional distortion or attempted distortion of statements and records and/or the misappropriation of assets involving deception to obtain an unjust and illegal financial or other advantage.

3.3 **Corruption** – the offering, giving, soliciting or acceptance of an inducement or reward that may influence the actions taken by the Council, its Committees, Elected Members or officers.

3.4 **Embezzlement** – theft or misappropriation of funds placed in one's trust or belonging to one's employer.

3.5 **Bribery** – giving, soliciting, or receiving a financial or other advantage in connection with the "improper performance" of a position of trust, or a function that is expected to be performed impartially or in good faith. A bribe may be offered directly to an officer to influence their actions or it may be given to another officer to influence the actions of someone else.

3.6 **Money Laundering** – the process in which the proceeds of crime are transformed into what appears to be legitimate money or other assets.

3.7 **Theft** – the dishonest appropriation of property belonging to another (including the Council) with the intention of permanently depriving the other of it.

4   Awareness of Fraud and Corruption Challenge

4.1 The criminal threat presented by fraud is not a new one but the ways in which fraudsters operate has developed significantly and is becoming ever more sophisticated.

4.2 Criminals are more organised than ever and their activities rely on significant levels of planning and organising. Fraudsters share information online and build criminal organisations across the UK and overseas. Tactics are constantly changing as criminals respond to the intervention of organisations and take advantage of new opportunities.

4.3 In taking advantage of new opportunities, criminals exploit the latest technology. They steal personal and financial data, both from individuals and organisations. They use social networking to build trust with potential victims who either unwittingly or are coerced into providing information to fraudsters.

4.4 Fraud can be a primary activity for organised crime groups or it can provide funding for other serious crimes. The organisers of fraud networks are often violent criminals who are doing harm to communities, public services and businesses.

4.5 However, not all frauds are perpetrated by organised crime gangs. There are a variety of opportunistic frauds and those which require a degree of sophisticated planning – often coupled with insider knowledge and access. Opportunistic frauds are facilitated by dishonesty; a culture that tolerates fraudulent behaviour and does not always acknowledge it as criminal; weak procedures, systems and controls; and lack of information sharing between organisations.

4.6 Fraud can cause significant damage to those affected. The annual fraud indicator 2017, which provides the last set of government sanctioned estimates, indicates that identified and hidden fraud against the UK public sector amounts to an estimated £40.3 billion per year. An estimated £7.3 billion of this amount was in the local government sector[1].

4.7 Losses on this scale have huge implications for already constrained budgets within public bodies and undermine the effective provision of public services.

4.8 Public sector bodies are an attractive target for fraudsters, who look to abuse the tax, benefits and grants systems for personal gain. Furthermore, the public sector, like all organisations, is subject to fraud risks against day-to-day business functions. A number of the main service areas which have been identified as being at significant risk of fraud are detailed below.

4.9 **Employees** – any employee can perpetrate fraud against their employer. Types of employee fraud are wide-ranging and can include misuse of time and resources, fraudulent claims for allowances and expenses, failure to declare conflicts of interest or the acceptance of gifts and hospitality, as well as the manipulation of finance and payroll systems. One of the strongest defences against employee fraud is ensuring that proper vetting takes place prior to employment. NAC has a range of relevant policies that must be adhered to, including the *Recruitment and Selection Policy*, *Protection of Vulnerable Groups (PVG) Policy* and *Recruitment of Ex-Offenders Policy*. All members of staff are required to comply with the *Employee Code of Conduct*. It is also essential that senior management ensures that clear internal controls and segregation of duties are in place across the Council.

4.10 **Information and Cyber Security** – this is an area of increasing public focus with a number of recent high-profile incidents and attacks across the public sector.

Councils hold a range of personal and sensitive information about individuals and organisations which would be of interest to fraudsters. It is vitally important that the Council has robust arrangements in place to protect the integrity of its data and systems. Any loss brings the risk of reputational and financial damage to the Council plus the adverse personal impact on those individuals affected by the cyber-enabled fraud.

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[1] https://www.cipfa.org/-/media/files/services/ccfc/cipfa-fraud-and-corruption-tracker-national-report-2020.pdf

North Ayrshire has a range of information and cyber security policies, procedures, and guidelines in place to help manage the risks related to data loss and cyber-attacks. These include an *Acceptable Use of ICT Policy*, which all staff are required to sign up to, *Data Sharing Guidelines*, *Information Classification Guidelines*, *Cyber Incident Response Plans and Data Protection Policy*.

The Council has both an Information Governance Team and a Cyber Security Team to manage the information and cyber risks, implement controls which protect data and systems, and respond rapidly to any reported incidents or attacks.

4.11   **Procurement and Contracts** – procurement fraud covers the entire procure-to-pay lifecycle, including fraud in the bidder selection and contract award stages (such as illicit cartel activity or the bribery of an official to influence the tendering process) as well as fraud occurring during the life of the contract (for example, false or duplicate invoicing). The Council has a centralised procurement function for all non-social care procurement and a dedicated social care commissioning team within the Health and Social Care Partnership; both operate in accordance with the Council's *Standing Orders Relating to Contracts* and the *procurement manual*. The Corporate Procurement Unit has a data-sharing protocol in place with Police Scotland and staff are required to declare any conflicts of interest they may have.

4.12   **Finance** – the Head of Service (Finance) has a responsibility to ensure that the Council's financial resources are used in accordance with agreed policy. A range of monitoring and reporting processes are in place, in particular over the Council's revenue and capital budgets. The Council has *financial regulations* and *codes of financial practice*, to which all staff are required to adhere, as well as approved *treasury management practices*.

4.13   **Physical security of assets** – Council assets (particularly buildings, cash, safes, stores and computer systems) may be at risk through weaknesses in physical security. Each Council building has a maintained alarm system, linked to an out-of-hours call centre. Should any alarm be activated, the stand-by security contractor will arrange to attend the property and undertake a security check. The police will be contacted if it is deemed necessary.

4.14   **Licensing** – many of the businesses that require licensing are those identified by Police Scotland as being most commonly associated with organised crime gangs. The Council operates a range of policies in relation to the various licences that are available; these policies are made available to the public through the Council website. A Licensing Board and Licensing Committee are in place to determine applications and will make decisions in accordance with appropriate legislation based on information provided by applicants and statutory consultees, including Police Scotland.

4.15   **Planning** – legislation requires the determination of applications to be made in accordance with the Development Plan, unless material considerations indicate otherwise. The Development Plan has to be submitted to the Scottish Government prior to adoption. The planning system has a series of checks for conformity with national and local plans, together with an open and transparent procedure, through the need for consultation and publicity at every stage of the decision-making process. Offers of community benefit are not a material planning consideration and it is important that decision makers are not induced to grant an otherwise unacceptable consent through the promise of community benefits. Within NAC, there is democratic

accountability through the Committee structures in terms of the Local Development Plan Committee, Planning Committee and Local Review Body, and the full Council when required. Management structures within the service negate the possibility of influence over an individual officer. The Councillors' Code of Conduct has been updated to clarify that community benefits are not a material consideration when determining Planning applications. Community benefits are not managed within the Planning Service and are dealt with entirely separately from and without reference to the planning process.

4.16 **Housing tenancy** – this can cover a wide range of fraud such as the provision of false information to obtain social housing, unlawful sub-letting, false homeless applications and false successions. Unlawful occupation of social housing results in reduced availability of housing stock to legitimate applicants. The Council carries out a range of identity checks on applicants for housing to help reduce the risk of tenancy fraud.

4.17 **Council tax** – Council tax is a target for fraudsters, particularly through false claiming of single person discount, vacant property relief or student occupancy or through the Council Tax Reduction scheme. The Council participates in data matching initiatives to identify potential fraud cases and these are investigated by the fraud team.

4.18 The above list is not exhaustive and, as noted at 4.2, the tactics used by fraudsters change over time and new fraud risks will continue to emerge. Increasing financial constraints and changes to the way in which Councils deliver and manage their services can all increase the risk of fraud. For example, the transfer of assets to community groups could result in local authorities losing control of how assets and funding are managed; with small organisations being less experienced in managing public funds, the risk of financial mismanagement and abuse of funds could increase. The Council must remain alert to such emerging fraud risks and ensure that good governance structures and controls are in place to counter these.

4.19 There are a number of danger signs or 'red flags' to which the Council must be alert in order to maximise the opportunity to identify potential frauds. These include:

- Significant changes in behaviour
- Individuals with large personal debts and a desire for personal gain
- Audit findings deemed to be errors or irregularities
- Transactions taking place at odd times, odd frequencies, involving unusual amounts or to odd recipients
- Internal controls that are not enforced or often compromised by higher authorities
- Discrepancies in accounting records or unexplained items on reconciliations
- Missing documents or only photocopies available
- Inconsistent, vague or implausible responses to enquiries
- Missing inventory or physical assets
- Common names or addresses of payees or customers
- Alterations on documents such as back-dating
- Duplications such as duplicate payments
- Collusion among employees, where there is little or no supervision
- Situations where one employee has control of a process from start to finish with no or inadequate segregation of duties.

5   North Ayrshire Council Approach

5.1   The Council will follow 5 key steps in managing its approach to tackling fraud and corruption. The approach covers proactive steps, aiming to prevent fraud and corruption occurring, and reactive steps when suspected instances are identified.

5.2   **Deter** – the Council will seek to maximise publicity around successful detection and prosecution activity in order to deter potential fraudsters.

5.3   **Prevent** – the Council will seek to prevent fraud by implementing strong internal controls in all activities across the organisation. Heads of Service are responsible for implementing and testing robust control mechanisms, which will also be subject to periodic review by Internal Audit in line with the approved audit plan. The Council will also seek to prevent fraudulent activity by raising awareness of this Strategy, along with other key policies.

5.4   **Detect** – the Council will actively seek to detect fraudulent activity through a number of means. This will include: data sharing with key partners, such as through the National Fraud Initiative (NFI); pro-active data matching between different systems and data sets; encouraging _whistleblowing_ by employees or members of the public; regular management checks on the adequacy of internal controls, and reviews by Internal Audit.

5.5   **Investigate** – allegations of fraudulent activity will always be reviewed by senior management and referred to the Corporate Fraud Team for investigation where appropriate. This will be done in line with the Council's approved _defalcation procedures_. As well as recommendations for enforcement actions, an investigation by the Corporate Fraud Team will result in a range of recommendations to tighten controls to help prevent a future reoccurrence.

5.6   **Enforce** – the Council will always pursue a triple-track response to any instances of fraud or corruption which are found to be proven:

- **Disciplinary action** – any fraudulent or corrupt activity by employees will be regarded as 'gross misconduct' and appropriate action will be taken under the Council's _disciplinary procedures_.
- **Criminal proceedings** – following the conclusion of any Corporate Fraud Team investigation, fraudulent or corrupt activity may be referred on to Police Scotland or reported directly to COPFS for their consideration of criminal prosecution (with the approval of the Chief Executive).
- **Recovery action** – the Council will seek to recover any financial loss it has suffered through fraudulent or corrupt activity, either through court proceedings or by pursuing civil action.

6   Key Partners

6.1   The Council will maintain arrangements with other public agencies to encourage the exchange of information about fraud and corruption. Any exchange of data is undertaken in accordance with the principles of the Data Protection Act 2018 and UKGDPR.

6.2   These agencies include:

- Police Scotland – both at local level and through the national Public Sector Counter Corruption Unit (PSCCU).
- Crown Office and Procurator Fiscal Service (COPFS)
- Other local authorities
- Local and national Internal Audit and Corporate Fraud networks
- The National Anti-Fraud Network (NAFN)
- Audit Scotland
- Department of Work and Pensions (DWP)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- The Council's insurers, currently Zurich Municipal.

6.3 The Council also participates in the UK-wide National Fraud Initiative (NFI), which allows the secure sharing of data between public bodies and highlights potential fraudulent activity for further investigation. The Cabinet Office processes the data provided by the participating organisations.

7   Reporting

7.1 This strategy reinforces the Council's approach to dealing with fraud by setting out the way in which members of the public can report their concerns around suspected fraud.

7.2 The Council wants to know about fraud, corruption, embezzlement, bribery, money laundering and theft as generally defined at paragraphs 3.2 – 3.7 above.

7.3 Employees and Elected Members are expected to raise any concerns they have, without fear of recrimination. The Council also encourages members of the public who suspect fraud in the Council to contact North Ayrshire Council. The following reporting mechanisms are in place:

By telephone to the Corporate Fraud Team	01294 324585 01294 324586
By email to the Corporate Fraud Team	corporatefraud@north-ayrshire.gov.uk
By writing to the Corporate Fraud Team	North Ayrshire Council Corporate Fraud Team, 2nd Floor, Cunninghame House, Irvine, KA12 8EE.
Twitter	@NAC_CorpFraud
Facebook	Corporate Fraud Team, North & East Ayrshire Councils

7.4 Further information on the Corporate Fraud Team can be found on our website at www.north-ayrshire.gov.uk/council/fraud-against-the-council.aspx

7.5 For suspected Housing Benefit fraud, the Department for Work and Pensions (DWP) should be contacted via https://www.gov.uk/report-benefit-fraud